CREATING OPPORTUNITIES FOR SMALL BUSINESSES IN AN ECONOMIC RECOVERY

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CREATING OPPORTUNITIES FOR SMALL BUSINESSES IN AN ECONOMIC RECOVERY

Tuesday, September 28, 2008

U.S. House of Representatives,
Committee on Small Business,
Washington, DC.

The Committee met, pursuant to call, at 10:05 a.m., in Room 2360, Rayburn House Office Building, Hon. Nydia M. Velázquez [Chair of the Committee] Presiding.

Present: Representatives Velázquez, Ellsworth, and Chabot.

Chairwoman Velázquez. This hearing of the Small Business Committee is now called to order.

This September, in the face of a collapsing housing market and a staggering crash on Wall Street, Congress took action. Since then, talk of the growing financial crisis has dominated American conversation. From Capitol Hill hearing rooms and newspaper editorial boards, to kitchen tables across the country, it seems everyone has a theory about how we got into this mess. Now, of course, everyone has an opinion on how we should get out of it.

Congress is now contemplating the next steps in stemming the financial fallout. As the process moves forward, Congress, economic models and philosophies are up for consideration. But while it is all well and good to discuss the theory of financial crisis, it is far more important to hear from the people who are living it. It is far more important to understand and act on what Main Street is actually facing.

In today's hearing, we will do just that. This morning, we will hear from small-business owners who are experiencing the full effects of the current downturn. Like the rest of the Nation, they have watched their home values plummet and their 401(k)s evaporate. Now, they are seeing their piece of the American dream suffer too.

This Committee recently compiled a report on the effects of the financial crisis on small businesses. The results of the study, which we are releasing today, were nothing short of outstanding. As today's witnesses can attest, small businesses in every corner of the country, spanning every segment of the economy, are suffering. The reality is that many small firms are struggling to meet the most basic obligations, such as making payroll and stocking their shelves.

Not surprisingly, the credit crunch is largely to blame for this, and the extent to which that is true is quite startling. Small businesses are facing credit lines that have been drastically reduced and, in some cases, revoked all together. The recent Federal Reserve's Senior Loan Officer Survey found that 65 percent of lenders are enforcing stricter loan standards. That figure is up a full 58 percent from 1 year earlier.

Even small firms that have been managed to make ends meet are now abandoning plans for growth, efforts that would otherwise create jobs. According to the National Federation of Independent Businesses' monthly index, few small firms have immediate plans to expand or hire additional workers.

During past recessions, the Small Business Administration has served as a lifeline for struggling startups. Unfortunately, even these programs are on the decline. With SBA funding down 25 percent from 2007, many fledgling companies, the sort that drive innovation and expand industry, may never get off the ground.

There are a lot of different takes on the current financial crisis and even more opinions on how we should dig our way out of it. But regardless of your thoughts on the matter, one thing is very clear: Small businesses will be the key to economic turnaround. Whether it is by expanding the SBA role or providing targeted tax relief, entrepreneurs must have access to all the tools they need. They have powered this country out of other recessions, and they can do it again today. While current circumstances may be different from those in the past, the blueprint for recovery remains the same: more jobs and greater economic growth. That is the formula we need, and that is the formula small businesses can provide.

I would like to thank all of the witnesses in advance for their testimony and for taking time out of your busy schedule and jobs to be here with us. And I am pleased that they could join us, and look forward to their insight on this critical matter.

With that, I yield to the ranking member, Mr. Steve Chabot, for his opening statement.

Mr. CHABOT. Thank you, Madam Chairwoman, and thank you for holding this important hearing this morning.

I want to thank the panel for the testimony that they will be giving us here shortly.

All of us are aware of the recent turmoil and continuing volatility of the financial markets. These problems also touch America's small businesses. Availability of credit is reduced, thereby dampening the capacity of small businesses to create needed jobs.

Yet it is not just the availability of credit that bothers America's small-business owners. They are also ordinary men and women with the same concerns about the value of their homes, the safety of their investments, and outlook for the future of their children that every American has in these uncertain times.

Given the current situation in the American economy, policies must be developed that help unleash the power, flexibility and vitality of America's small-business owners. Those policies require reductions in the Federal deficit, lowering taxes, and making health care more affordable for our small-business owners.

Recent actions by the Federal Government have increased its borrowing and debt ceiling. The Federal Government then is competing for debt capital with all businesses, including small businesses. I suspect that the witnesses before us today probably cannot compete in the credit markets with the single most credit worthy borrower the world economy has ever known, the United States Government. Thus, to borrow money, small businesses represented here—and the 25 million small businesses across the country—will have to pay higher interest rates to attract the credit they need to operate and expand their businesses.

We can reduce this hidden and insidious tax on America's business owners by reducing the Federal deficit and eliminating unnecessary and wasteful spending. In addition to the hidden tax associated with higher interest costs, some of America's small businesses also face the prospect of paying higher taxes under some of the proposals discussed in this year's presidential campaign.

Increasing the cost of credit and increasing taxes that small-business owners must pay is a double whammy that these individuals and the American economy can ill afford. If we raise the cost of operating their businesses, America's small-business owners will limit hiring and investment. In turn, this would reduce economic growth and inhibit recovery from the current turmoil in the economy.

Any stimulus package that Congress considers must not raise taxes on the most productive part of the American economy, our small-business owners. In fact, the stimulus package should reduce taxes on small businesses so they have more money to spend in the manner they best see fit, rather that relying on how government bureaucrats think money should flow into the economy.

There is no doubt that all American businesses have made cutbacks in spending, including providing health care to their workers. This has been a longstanding problem for America's small businesses that has been exacerbated by the recent volatility in the financial markets. Congress must find ways to make the provision of health care more affordable to America's small businesses. One such possibility would be to include the enactment of association health plans in any stimulus package. Such plans have met with bipartisan support, including my own and also that of the chairwoman.

No one can deny that recent weeks and months are placing a strain on the finances of all Americans, including America's small businesses. Increasing the size of government, expanding the deficit and raising taxes simply is the wrong prescription for what ails America. Congress must exercise its power wisely by reducing the deficit, lowering taxes and improving the ability of small businesses to provide health care to their workers.

Before closing, I would like to thank the witnesses, particularly Tom Franke from my district in Cincinnati, for taking the time out of their busy schedules and their hectic times in these up certain times in running their businesses to coming here to Washington and provide their views to this Committee. I know we all look forward to hearing it.

And, with that, I yield back the balance of my time, Madam Chairman.

Chairwoman VELÁZQUEZ. Thank you, Mr. Chabot.

It is my pleasure to welcome Mr. Stephen P. Wilson. Mr. Wilson is CEO of LCNB Corporation, the holding company for LCNB Bank and the banking insurance agency in Lebanon, Ohio. Mr. Wilson also serves as chairman and director to both companies.

He is here to testify on behalf of the American Bankers Association. Founded in 1875, the American Bankers Association represents banks of all sizes on issues of national importance for financial institutions and their customers.

Welcome, Mr. Wilson.

STATEMENT OF STEPHEN P. WILSON, CHAIRMAN AND CEO, LCNB CORPORATION, LEBANON, OHIO, ON BEHALF OF THE AMERICAN BANKERS ASSOCIATION

Mr. WILSON. Thank you. Madam Chairwoman and members of the Committee, again, my name is Steve Wilson. I am from Lebanon, Ohio. I am chairman and CEO of LCNB National Bank. I am also pleased to be hear today to represent the American Bankers Association.

Our Nation is certainly facing difficult economic conditions. It will clearly take time to work through these problems. We need to collectively look for solutions that will ensure a fast recovery. I have always believed that we must be realistic about the present and hopeful for the future. Hearings like this allow us to discuss these issues and work together to restore confidence in our financial system.

In spite of the difficulties faced by all businesses, including banks, I want to assure you that the vast majority of banks continue to be well-capitalized and are opening their doors every day to meet the credit and savings needs of their customers.

We applaud the efforts of Congress to find solutions. Although these actions are not ones that were requested by the regulated banking industry, we believe that they help unfreeze financial markets and help make credit available to consumers and businesses on Main Street.

The focus on credit to small businesses is particularly important, as they are the drivers of new ideas, new employment and new economic growth. For banks like mine, small businesses are our bread and butter, and banks throughout our country continue to make small business loans.

However, the demand for small business lending has fallen in recent weeks and is most pronounced in areas of the country hardest hit by the housing downturn. For example, in my area of Ohio, there are three plant closures that are expected to happen soon. That will eliminate 13,000 jobs. This will have a major, major impact on our region. So, ensuring that adequate liquidity and capital are available during this time is critical to maintaining the flow of credit to small businesses.

The Emergency Economic Stabilization Act contains some provisions that should free up capital. Community bankers remain concerned about whether the Troubled Asset Relief Program can help them and, indeed, perceive that it may even do them harm. Banks will consider carefully its structure and its pricing. In addition, they believe that using TARP funds to guarantee loans would be more effective. This would leave the relationship between the bank and their customers intact and put a floor on losses, thus freeing up capital to meet new loan demand.

Moreover, while the root of the current problems has been residential mortgages, the economic disruptions are spreading into the commercial real estate and into the small business lending area. Thus, TARP funds should be available to purchase or guarantee a broader class of loans.

As TARP is implemented, it is important that regulators recognize that many well-capitalized banks have sufficient liquidity and are meeting the credit needs of their communities. These banks may not want to participate, and no negative regulatory consequences should arise from that decision. Indeed, all regulatory policy should be carefully monitored during this time. We are very concerned that a regulatory overreaction could worsen the credit crunch. As it did following the 1991 recession, we are hopeful that regulatory reason will win the day this time.

There are several measures that would help banks support loans to small businesses. I want to briefly mention just one of those from my written statement regarding the SBA lending program.

Loan volume declined by 30 percent last year in SBA's flagship 7(a) loan program. To help reverse this trend, Congress should reduce program fees, make the application process easier and less expensive for both small businesses and the banks, and, on a temporary basis, increase the Federal guarantee provided on SBA loans. This would extend the program to many more communities across our country and provide more loans to businesses.

As Congress considers these and other changes, we urge caution not to enact policies or regulations that will inadvertently restrict the availability of credit that is so vital to our economic recovery. We stand ready to work with the Committee, Madam Chairwoman, to find effective ways to ensure lending flows to small businesses.

Thank you very much.

[The statement of Mr. Wilson is included in the appendix at page 33.)

Chairwoman VELÁZQUEZ. Thank you, Mr. Wilson.

Our next witness is Ms. Margot Dorfman. Ms. Dorfman is the founder and CEO of the U.S. Women's Chamber of Commerce. Ms. Dorfman has an extensive background in business, business ownership, publishing and nonprofit leadership. The U.S. Women's Chamber of Commerce is dedicated to championing opportunities to create women's business growth, career and leadership advancement.

Welcome, Ms. Dorfman.

STATEMENT OF MARGOT DORFMAN, CEO, U.S. WOMEN'S CHAMBER OF COMMERCE

Ms. DORFMAN. Thank you.

Chairwoman Velázquez, Ranking Member Chabot and members of the House Small Business Committee, I thank you once again for this opportunity to speak on behalf of the millions of small-business owners, their employees and families nationwide who are scared, hurting and watching during this economic crisis while Washington focuses on corporate executives and big Wall Street bailouts instead of getting down to Main Street America, where jobs are created, families are fed and mortgages are paid, to get credit flowing and raise consumer confidence.

I have five words for you: big, bold, simple, focused, and now.

I am hearing every day from small-business owners who are very frustrated as they watch while Secretary Paulson and President Bush repeat the failures of the past by always looking out for corporate executives. Pouring billions of taxpayer dollars in at the top of the system in no way assures that a small-business owner in a local community is going to be able to get their line of credit increased during this abrupt economic slowdown.

Our members are angry that the Federal Government is giving taxpayer money to big companies that have been horribly irresponsible, while responsible small businesses are not getting the money they need to keep their doors open. As one of my members said about her business, "I don't want to lose my company. We have 40 families that we provide for, and it is a big responsibility that I take very seriously."

On behalf of the millions of American small-business owners, I implore you to act now with a big billion-dollar punch that will reach directly to the credit needs of small-business owners. We have been surveying our members to get a clear look at this issue, and they tell us there are three key problems.

First, consumer and business confidence is falling rapidly and creating a sudden contraction in business revenues.

Second, lenders aren't lending. Our members report that, in the last 90 days, 53 percent are tapping into their own savings, 63 percent have turned to credit cards, and 24 percent have turned to family and friends for a loan. And business owners are telling us that they are downsizing their employees or independent contractor force in alarming numbers. Seventy-one percent of businesses say they have downsized. Sixty-nine percent have seen their revenues drop. Thirteen percent say if economic conditions do not change, they may be forced to close their doors. Only 20 percent have seen revenues increase, and these businesses also cannot secure the capital that they need to grow their business.

Third, the cost of credit, when available, is going up. Thirty-eight percent of businesses tell us that their credit card and loan rates have gone up in the last 90 days. Twenty-two percent tell us their credit limits have been reduced, and 17 percent have had their lines of credit halted.

Among the comments I have received from our small-business owners, one in California mentioned that she has two lines of credit. One was cut in half. Another, with Bank of America, was $50,000, went to take $10,000 to meet payroll and was turned down. She is a customer of 20 years and runs millions of dollars through their bank, has three bank accounts, two personal accounts, and a credit score of 750.

Congress must take legislative action to help restore the flow of credit and capital to small-business owners as soon as possible. And the Small Business Administration must take immediate administrative action to loosen lending operating procedures.

You must focus on getting the cooperation of the lending community by keeping the solutions simple to implement by using existing systems, lowering the lender and oversight fees, and assuring the lending community that any new programs, rules or procedures will be in effect for at least 2 years. And use this opportunity to re-engage regional banks, so that we are not so reliant on a few big banking institutions.

As you make legislative and administrative changes, don't forget the SBA is not the organization it used to be. Eight years of budget cuts and poor executive leadership have gutted the organization. The option of direct lending may totally overwhelm the capacity of the SBA infrastructure. Even now, we continue to hear that the SBA is not adequately supporting the businesses who are struggling, Katrina disaster victims and, again, who have been impacted by Gustav and Ike.

It may be much better to incentivize banks to get back into lending with a specific pool of money made available for only small business lending. We have to hold banks accountable for providing loans or stop giving banks taxpayer-provided bailouts. And we must dramatically increase transparency.

Additional actions are needed to help business owners get through these hard times. Congress should expediently pass another stimulus package, this time to support small businesses. We need lower small business taxes and penalties, delayed tax payments, delayed retirement accounts, and extend the amount of the period for loans against retirement accounts. Most importantly, you must take action to reduce health care costs.

And finally, specifically speaking of women-owned small businesses, you must remember that our businesses are already at a disadvantage, as the SBA regularly lends smaller amounts to our firms. I encourage you to make sure that the lending programs reach to our marketplace so that we may leverage the resources necessary to keep our doors open and drive future growth. For instance, establishing a special 2-year look-alike of the Patriot Express lending program, with loosened administrative rules, hiring guarantees and greater lending authority, would quickly and greatly assist many of our members to keep their doors open.

And you must take action to implement the 8-year-old Women's Federal Procurement Program as Congress had originally intended. We find with the recent 2007 goaling report that the Federal Government is still shutting out women-owned firms at an alarming rate. Numerous members have told us that receiving fair access to these Federal contracts could certainly provide business growth at this important time.

In closing, I have five words for you: big, bold, simple, focused, and now. We need you to champion our needs now before it is too late.

Thank you.

[The statement of Ms. Dorfman is included in the appendix at page 48.]

Chairwoman VELÁZQUEZ. Thank you, Ms. Dorfman.

Our next witness is Mr. Richard A. Brown. Mr. Brown is president and COO of Krause Corporation in Hutchison, Kansas. Krause was founded in 1916 and currently employs around 225 people.

He is here to testify on behalf of the Association of Equipment Manufacturers. The AEM is a trade association that globally represents more than 800 companies that manufacture equipment worldwide in the industries of agriculture, construction, forestry, mining and utility.

Welcome.

STATEMENT OF RICHARD A. BROWN, PRESIDENT AND COO, KRAUSE CORPORATION, HUTCHINSON, KANSAS, ON BEHALF OF THE ASSOCIATION OF EQUIPMENT MANUFACTURERS

Mr. BROWN. Thank you very much, Chairwoman Velázquez and Ranking Member Chabot, for the opportunity to testify.

I am Richard Brown, the president and chief operating officer of Krause Corporation in Hutchison, Kansas. We were founded in 1916, and we are a privately held manufacturer and marketer of agricultural tillage products. Krause Corporation has survived the Great Depression, the Dust Bowl, two world wars, multiple other wars that drove material shortages, and numerous financial interruptions, and we intend to be here in the future.

I also have the privilege of serving on the board of directors of the Association of Equipment Manufacturers. AEM is one of the oldest trade associations in North America, representing over 800 companies that manufacture agricultural, construction, forestry, mining and utility equipment.

In addition to serving on the board, I am chairman of AEM's Small Enterprise Committee. If I can borrow the acronym SEC, the SEC represents the interests of and provides specific services for AEM member companies reporting less than $250 million in annual revenue and that comprises 95 percent of AEM's membership.

While Wall Street is on a financial roller coaster, I am here to tell you that many small businesses in America are in economic free-fall. This financial crisis is also taking a toll on rural America and agriculture. In my State of Kansas and all across the country, agriculture is the economic foundation for countless small businesses and thousands of Main Streets.

Modern agriculture requires farmers to have access to credit so that they can make the large capital investments needed to plant and harvest crops. The tightening of the credit markets is coinciding with the rapid rise in the cost of agricultural inputs. It is also important to note that the record commodity prices, which earlier this year garnered intense media attention, have fallen sharply in the past few months. As an example, corn alone has fallen 50 percent below break-even.

We are now seeing farmers delay their purchase of inputs from their normal preseason purchasing patterns, as they are having credit trouble. The ripple effects of tightened credit markets, at a time of increasing capital requirements for agriculture, will lead to economic hardships for rural America.

I also perceive a growing sense of anger among rural Americans about this situation. Generally speaking, they did not buy homes they could not afford or run up huge credit card debt, but now are forced to deal with the consequences of other people's excesses and, as a result, are losing faith in the system.

No question, these are hard times, but government can and should take steps to ensure the continued success of America's entrepreneurs. We have four recommendations.

Number one, extend the bonus depreciation and enhanced expensing provision, which are a part of the stimulus act of 2008. This extension will continue to help multiple sectors of the economy by enabling companies to purchase the modern tools they need to operate. Also, Congress should consider reinstating the 10 percent investment tax credit for new equipment purchases as a long-term way to encourage the use of modern, more efficient, production technology.

Number two, invest in infrastructure. America is the world's largest importer and exporter, and we depend upon the efficient transportation of goods and services. Studies show that we need to invest from all sources $140 billion to $255 billion annually to stay competitive. In addition, EPA estimates there is an annual shortfall of $23 billion of our investment in water infrastructure. Investing in infrastructure is one of the most productive short- and long-term investments the Government can make.

Number three, help small businesses export. My company is a perfect example of what exporting can mean. We have increased our exports 20 to 25 percent and nearly 10 percent to Russia, who are aggressively funding food self-sufficiency. This is a catalog of Krause Corporation in Russia. That is why it is important for Congress to pass the pending free trade agreements with Colombia, Panama and South Korea. We at Krause Corporation have the products and technology, but we do need governmental assistance to break down trade barriers and improve transparency.

Number four, please help control rising health care costs. Krause Corporation's annual health care costs represent $857 per machine unit we sell, while none of our global competitors have a direct comparable expense. Our health care costs at current rates are doubling every 4 to 5 years, and represents a greater risk than even $100-a-barrel oil.

Whatever actions are undertaken, I can't stress enough that we must restore the confidence in the marketplace. Times are tough, but I am confident we will survive to see better days. With proper Government action, these days can be closer than they appear.

Thanks very much again for the invitation to testify, and I will be happy to answer questions.

[The statement of Mr. Brown is included in the appendix at page 59.]

Chairwoman VELÁZQUEZ. Thank you.

Our next witness is Mr. Jim Bradbury. Mr. Bradbury is president of Grand Rapids Controls Company in Rockford, Michigan. Grand Rapids Controls has developed from a small domestic cable supplier into a global supplier of motion control systems. Mr. Bradbury's company is a family-owned company and a major employer for Rockford, with around 200 employees.

Welcome.

STATEMENT OF JIM BRADBURY, PRESIDENT, GRAND RAPIDS CONTROLS CO., LLC, ROCKFORD, MICHIGAN

Mr. BRADBURY. Hi. Thank you, Ms. Velázquez and the Small Business Committee, for inviting me here today to discuss how the economy has impacted my business. My name is Jim Bradbury, and I am president and CEO of Grand Rapids Controls Company, LLC.

Today, I am going to share with you some background history on how the automotive and office furniture industry has changed how we do business, and how the current economy is different than it was just a few years ago.

Founded in 1968, GRC designs and manufacturers motion controls for automotive and office furniture OEMs. When you adjust your seat, open a car door or window, you are likely to use our products. Headquartered in Rockford, Michigan, GRC also has manufacturing plants in Greenville, Michigan, and Qingdao, China. Known as a problem solver by our customers, GRC provides full-service support and R&D, testing and manufacturing of finished products. Two hundred people work for us in Michigan today.

For the first 20 years, GRC mostly supplied a commodity product. In the early 1990s, the consumers' tastes changed, and more features were required on chairs and in vehicles. We responded by developing the ability to design new products for these applications.

In response to the increase in offshore competition, GRC developed lean manufacturing techniques and automated machines to increase productivity. In 2001, the economy started to decline, as competition continued to increase. Chinese and Mexican competitors were achieving acceptable quality, while offering significant price savings to our customers. In just a couple of years we started to see large chunks of business move out of our plant to these far-off places. In the span of 3 years, we saw sales slide 50 percent.

In the summer of 2004, the owners of GRC sold the company to another family-owned business, The Charlton Group. The Charlton Group brought knowledge of international business and financial resources to grow the business. However, the new company needed to stop bleeding cash, and a new competitive business model was required.

Immediately, we cut expenses, stepped up sales efforts, evaluated our products and met with customers to find out where they were headed. In talking with our customers, we were informed that we needed a plant in a low-cost country for them to continue doing business with us. We determined that our commodity product was too difficult to automate, so we collaborated with a partner to open a plant in China.

This served two purposes. First, it positioned us well for China's future domestic growth. And secondly, it gave us a competitive model for a commodity product in the short term. The strategy worked, and we were awarded 17 new programs. By the end of 2007, we achieved over 85 percent growth, all of our plants were full, 100 new jobs were created in the U.S., and profitability was up.

During the growth period, we had borrowed a great deal of money to reinvent the company. By the end of 2007, we had paid most of the new debt off, and 2008 looked to be another good year.

But 2008 has proven a challenge to manage. In the first quarter of the year, a large supplier went on strike for 3 months, reducing our sales by 20 percent. Material and gas prices rose dramatically at the end of the strike. Vehicle inventories were up. Customers started to slash orders, and the industry panicked with no end in sight to high gas prices.

The office furniture industry was no exception, as the OEMs made a commitment to buy global companies and began to move and source existing products overseas. The end result was a 40 percent decline in sales and loss of profitability. In response to the decline of revenue, we had to cancel wage increases and bonuses. Resources are restricted to operationally critical items, sales growth and cost reduction activities.

Despite the pessimistic outlook for 2008, GRC has achieved some great results.

The bigger hurdle may not be the loss of sales, but the effect that the tightening credit markets will have on unprepared small business. Financially, GRC uses a line of credit for daily operational activity. The limit on the line of credit is based on a formula that calculates a percentage of our qualified accounts receivable, plus a percentage of our qualified inventory. As sales fall, AR and inventory shrink, effectively reducing our line of credit. Banks aren't sure of the value of our assets and are taking a much more conservative approach to lending. Despite our best efforts, we are getting squeezed by unsecured creditors and loss of sales revenue.

I have traveled all over the world, and I believe America's creative culture and can-do attitude are great strengths. I have also seen how Government can accelerate creativity in the support of research and development. However, I believe other countries have a competitive advantage over America's small businesses, because in an American company most of their R&D is passed on to customers in higher prices. In other countries, the Government partnerships are more aggressively supporting the supplier R&D expenses to offer the world a better price, or the Government allows the copying of the technology.

Each year it becomes harder to compete in our home market. I encourage you to help American small business by providing the necessary resources to create a fair playing field and develop new technologies so that we can develop new technologies and we can grow.

Thank you for taking the time to listen to my testimony, and I hope it provides insight into the plight of the small businesses in today's economy. We are doing everything we can to support our employees and our stakeholders in our effort to create a great company.

The economy is fragile today, and it appears recovery is many months away. If credit is not available to small business and the field of play remains uneven, small business will continue to have an uphill battle and America will suffer.

Thank you.

[The statement of Mr. Bradbury is included in the appendix at page 65.]

Chairwoman VELÁZQUEZ. Thank you, Mr. Bradbury.

The Chair recognizes Mr. Chabot for the purpose of introducing our next witness.

Mr. CHABOT. Thank you, Madam Chairwoman.

And it is my pleasure to introduce Thomas Franke, executive vice president and chairman of the board of Riemeier Lumber in Cincinnati, Ohio.

Riemeier Lumber is a fourth-generation building materials company founded in 1925 by Harry D. Riemeier and his son, Harold, to service the furniture and wagon industries. At the end of Prohibition, Riemeier grew by selling soft wood to distilleries and whiskey warehouses. During World War II, the company supplied lumber and plywood to the war effort and struggled with the challenges of price controls and scarce resources.

Post-World War II expansion and the homebuilding boom led Riemeier to supply lumber to the homebuilding industry. Other family members joined the company as it expanded. Riemeier weathered volatility in the housing market over the years, and the business continued to grow.

However, the housing downturn of the past 2 years, coupled with difficult economic conditions, caused the company to begin layoffs, including people who had worked for Riemeier for 20 or 30 years. Although Riemeier sales were still strong, its bank would not allow the company to borrow against millions of dollars in receivables. Efforts to find investors or sell the property were unsuccessful. Last week, the company held an auction and closed.

I want to thank Mr. Riemeier for coming to Washington to tell the story of his family's small business and to help us understand what we can do for similar companies that are struggling and need access to credit in these difficult times.

Mr. Franke, welcome.

STATEMENT OF THOMAS FRANKE, EXECUTIVE VICE PRESIDENT AND CHAIRMAN OF THE BOARD, RIEMEIER LUMBER, CINCINNATI, OHIO

Mr. FRANKE. First of all, thank you to the Committee for inviting us, and especially Congressman Chabot.

I will be a little redundant here, but this is Riemeier's story. The Riemeier Lumber Company was founded in 1925. The company started out selling the industrial market hardwood lumber for furniture and wagon building. The end of Prohibition moved the company into the commercial market, selling lumber for distilleries and warehouses for storage of whiskey. The end of World War II vaulted Riemeier into the residential market, with the large need for housing. These three markets were the core of the business.

The growth of Riemeier caused us to purchase and move into a new facility in May of 2000. The new facility more than doubled the acreage, warehouse and office space to allow for future growth.

In November of 2005, a wall panel operation was started called Riemeier Structural Solutions. This was the process of constructing exterior and interior walls at the facility and delivering them to the job site, resulting in reduced costs and higher quality for the builder customers. The company was prospering, and by the end of 2005 Riemeier Lumber and Riemeier Structural Solutions had record sales of approximately $58 million and roughly 150 employees.

Customer demand for one-stop shopping placed the company in the market for a roof truss operation. The purchase of Panel Barn Lumber/Truss Design was agreed upon in 2006 and bank financed in February of 2007, adding roughly 30 jobs. We now had the business model that would carry us long into the future, being able to provide lumber, wall panels and roof trusses.

As the housing market began to struggle in 2006, our sales declined by 5 percent from our prior year record sales, and Riemeier Lumber experienced its first layoff in history in November of 2006. Sales for the first quarter of 2007 were poor, and in April we made our second round of cuts.

We managed to make minimal profit from April through August and added a second shift at truss in anticipation of a good September and October, as those were typically strong months as builders rushed to finish projects prior to winter. Sales during this period were well below expectations, and we had our third round of cuts in October.

We finished 2007 down 24 percent in sales, causing a significant loss. Our banking relationship that was so strong in 2005, 2006 and 2007 as we grew and expanded the business deteriorated during the latter half of 2007 as the housing market continued to decline and the credit crisis accelerated.

Our builder customers were affected by the downturn and the credit crisis. They were unable to pay us, which caused our credit to suffer, as their unpaid receivables were not considered good collateral by the bank. At the same time, our bank itself was suffering greatly in the credit crisis from its involvement with the subprime lending.

As the credit crisis deepened at the end of 2007 and beginning of 2008, and its effect on our bank became more evident and public, only 10 months after receiving additional financing from our bank for the truss acquisition our bank declared Riemeier to be in default of its loan covenants.

Whereas the bank had always previously insisted that it be the sole lender and banking institution for Riemeier, it now insisted that Riemeier find other sources of financing so that our bank's exposure would be reduced. Despite Riemeier's many attempts to comply with this request, it was not able to secure additional financing due to the condition of the industry and the continuing credit crisis. The company went through a bank-supervised period of forbearance, during which interest rates and bank fees were increased, creating greater losses for our company.

As our bank's action became public, we began to see a more rapid decline in our sales. On August 11th, the bank began the wind-down process, including letters to send to our customers and vendors explaining that we were going out of business. There was also a list of employees and their termination date and a list of our current jobs in process and whether they would be completed or not. This was accomplished by the bank-mandated consultant that is under contract with Riemeier as required by the forbearance.

The current state of the company is as follows. The real estate is currently for sale. Assets, including trucks, office furniture, mill equipment and tools, have been sold at auction. All material that could not be sold beforehand was also auctioned. There are five employees left, including Ken, myself and three accounting people to do collections until the last day that we will be at the facility, which is slated for November 6th. We will then close our door forever.

Thank you.

[The statement of Mr. Franke is included in the appendix at page 69.]

Chairwoman VELÁZQUEZ. Thank you, Mr. Franke.

Mr. Bradbury, if I may, I would like to address my first question to you.

The primary story line on the credit crunch has focused on major financial institutions on Wall Street. However, many have argued that these credit issues are creating even more daunting problems for businesses on Main Street.

As a small-business owner, what have you seen in terms of accessible and affordable credit over the last 12 months?

Mr. BRADBURY. Currently, banks seem to be less interested in our business. We have had numerous people—we, like you, we were looking at moving into one bigger facility a year ago, because our facilities were full. Multiple banks looked at financing it for us. Today, most of them want to walk, and a lot of them just want to walk away from automotive. So we are getting new lenders in the market that don't understand our needs.

They are also questioning the asset values. They are re-looking at our asset values to see if we can borrow money or not against them in the future. And they also seem to have to go up higher in their chain of command to get decisions made, which slows down the process.

Chairwoman VELÁZQUEZ. Mr. Franke, you testified that Riemeier's long-time lender essentially told you to go elsewhere for finance when times were tough.

Can you talk to us about the struggles that you faced in identifying alternative sources of credit for your company?

Mr. FRANKE. We tried numerous sources, I guess, first-, second- and third-tier lending. We decided against third-tier lending, and we really couldn't find first- or second-tier lending. There were no banks that were interested.

Chairwoman VELÁZQUEZ. Can you talk to us as to the primary reasons why those financial institutions did not offer financing to you?

Mr. FRANKE. We were on a pretty good cash burn. We lost significant money in 2007 and continued that into 2008. And that was the primary reason.

Chairwoman VELÁZQUEZ. Mr. Brown, you discussed that agriculture is the economic foundation for thousands of Main Streets across the country.

Do you feel that the struggles facing rural America have been largely ignored in this recovery process?

Mr. BROWN. Yes, we do, Madam Chairwoman.

The items I identified earlier, which are foundational health care costs that have continued to escalate at an unacceptable rate—usually, if you think of a farmer, it is a farmer and his family, and he has to buy his or her own health care.

Secondly, agriculture, historically, is fully dependent on availability of credit to the farm. Farming is a very high-risk operation—the vagaries of weather, pestilence, disease, et cetera; and it requires significant money for feed, fertilizer, fuel at this time of the year for the spring plant. Likewise, it is not unusual for a 3,000-acre corn farmer to have to buy 10,000 gallons of diesel fuel to run his or her combine in the fall.

None of these, to the best of my knowledge, have been addressed in the economic programs discussed.

I think rural lenders are attempting to do a very good job. I do not find fault with them, other than when you get on the down side of the slope and your financial ratios start to slide, when you need the help the most is rarely when you get it.

Chairwoman VELÁZQUEZ. Thank you, Mr. Brown.

Ms. Dorfman, every day we hear stories, anecdotal stories in the papers, on TV, about small businesses complaining about the fact of the credit crunch, that they are not able to access affordable capital and lines of credit. The SBA and their business loan programs are there, and yet you think that this is a time for those programs to be basically used, and what we hear is that the lending volume for SBA loan programs have been declining.

Based on what you hear from your members, do you believe that this is an accurate claim, that businesses simply are not seeking loans and capital during this economic downturn?

Ms. DORFMAN. I do not. We have surveyed several hundred members who have been looking for ways to access credit. And some of them have very good credit and have been paying on time, have had lines of credit, and they have been cut.

When you take a look at the SBA loans, some of the issues that we hear are that the fees on both sides, the bank sides and the small business sides, are so enormous that it really is challenging to get an SBA loan just from that alone. We also see that the banks are not really, as you mentioned, being friendly to folks who have been with them for years and years and years.

When we hear this bailout package, money goes to the banks, but where does it go then? It certainly has not gone down to the small-business owner to access capital. The capital, in how they are working, they have actually tightened the ability to get the loans and the capital that they need for small businesses.

Chairwoman VELÁZQUEZ. Mr. Wilson, during this recent downturn, we have seen steep declines in SBA lending year after year. And our hope was that these programs will do just the opposite and kick in when conventional lending pulled back.

So why have we not seen this? What do you think is the primary reason or reasons for this steep decline in SBA lending programs?

Mr. WILSON. I think it has a lot to do with the application process. I believe, also, that the costs have risen to the point where small businesses are concerned about making an application, maybe being denied, but having a lot of expense involved. Banks are concerned because of the process.

So, as I stated in my testimony, I think there are some things that could be done with the SBA program, including raising the limit on guarantees so that more communities and more businesses would be touched by the SBA.

And you are absolutely right. This is exactly the time when we need SBA to step forward and to take a larger role in funding small businesses.

Chairwoman VELÁZQUEZ. So you feel that the cost of the loans, that if the Government provides a higher loan guarantee, that it will incentivize financial institutions to make those loans?

Mr. WILSON. That is correct.

Chairwoman VELÁZQUEZ. Thank you.

I recognize Mr. Chabot.

Mr. CHABOT. Thank you very much, Madam Chair.

Mr. Wilson, I will begin with you, if I can. Relative to the $700 billion, which then went up to $850 billion, bailout or rescue plan or whatever terminology one wants to use, there have apparently been a number of businesses and banks, in particular, that are thinking about or trying to use a fairly significant portion of that money to purchase other institutions.

What are your thoughts about that? And how helpful is that? And how does that affect banks like your own?

Mr. WILSON. Let's go back to the original bill that was passed. Certainly, a bank like ours was very conflicted as to whether to support or not support that kind of action.

You know, there is a big difference between the regulated sector of the financial services industry and the nonregulated sectors. As a matter of fact, I have always learned that, to solve a problem, you have to understand, to be able to define the problem. And certainly one of the problems is the definition of the word "bank." Regulated, nonregulated, all called banks. Wall Street, Main Street, investment banks and commercial banks, all called banks. So it is difficult to understand the important differences between these firms.

So in a bank like ours that stuck to sound lending principles, that has the capital and the liquidity and the earnings and the growth and the asset quality to continue to lend, to continue to meet the credit needs of our customers, it would have been very easy to say that that bill was a really bad idea.

However, I don't think there is any doubt that it was needed. And it was needed because the credit markets were locked up and they had to be released.

We have a small business in our area that is a retirement home. That retirement home has bonds outstanding for building their facility. When a series of those bonds came up, there was no market for those bonds. The same experience was repeated with a hospital in our area; that was repeated in lots of different ways. That was repeated by some of the banks that I am sure other witnesses are talking about, where they just simply did not have the liquidity to meet loan demand.

So the bill had to happen. Now that it is there, how do we use it? And, as I said in my testimony, you could use it to inject capital, but you also could use it to guarantee loans. And in guaranteeing loans, you leave that relationship intact between the borrower and the bank. You leave intact the creation of capital if you guarantee those loans.

So I think a better use would probably be to buy back loans. Obviously they are going to be buying back securities. And I presume that some capital injection makes sense, but I would prefer they did a lot more of the former.

Mr. CHABOT. Okay. Thank you very much.

Ms. Dorfman, I will turn to you next, if I can. I think it is fair to say from your statement that the bailout, or, again, rescue plan, you had some real concerns about it in how it was structured and everything else. And, of course, it happened now, it is already done, so I won't ask you how you would have structured it.

But now that it is the law, are there changes, modifications? Because Congress can always change things. How would you suggest that we modify this over the next upcoming months or year to make it more useful for small-business folks?

Ms. DORFMAN. Well, again, I think we need to ensure that there is a benefit to the small-business owner.

And I would just like to reflect back on the lending. I had a member who went for a small business loan with Bank of America about 6 weeks ago, before the financial issues, and she was told that, "We don't do small business loans." And the question was, well, not even the SBA loans? No. But what they would give is a line of credit, or revolving credit, at 21 percent interest.

So, I really have a concern that the money that is out there is not being used appropriately in terms of assisting the small-business owner's access to capital. And I feel that is where the focus we should be, that we need to get the lines of credit back to where they were. Our members have been very good about paying them back. And the ones who are growing, they can't even get the capital they need so that they can hire more people and try and help turn the economy around. So I think that is where the focus needs to be.

Mr. CHABOT. Thank you very much.

Mr. Brown, relative to the 2001 and 2003 tax cuts on capital gains and across the board and all the other ones that were passed, the Federal inheritance tax, the death tax, do you have an opinion as to whether—even though we haven't made them permanent yet, they haven't gone back up, but Congress, in its budget this past year, put us on the glide path for those tax cuts ending, and there has been a lot of talk about capital gains, taxes going back up.

Do you have an opinion as to how that would affect small businesses and markets and job creation?

Mr. BROWN. Thank you, sir. We would support the continuation of those, not for profit taking, but for reinvestment. Most of our constituency are sole entrepreneurs, closely and privately held. The contribution of profitability from reduced taxes, the vast majority is reinvested in the business, either to buy equipment or to hire additional people.

If I am allowed to comment on some of the earlier thrusts in regard to bankers and what can be done, I empathize greatly with Mr. Franke. Our company several years ago was on the verge of bankruptcy. I faced a choice, a very difficult one: Pay the banker, pay payroll, or pay a bankruptcy attorney. I sought to pay the bankruptcy attorney so I could hold the others at bay.

There is a reason things are happening today the way they are, and it is called the pace of change. For a small company like most of ours, we don't have the critical mass to absorb a jolting change in the marketplace. I am going to use one example.

Steel, which comprises the vast majority of our purchases, went up 85 percent in the months of April and May. Health care walked in and gave us a 28 percent price increase or cost increase. We don't have the resiliency to absorb that, and that often pushes smaller companies to the brink of things they prefer not to do.

This may not sound very sophisticated in a legal term, but I would like to see incorporated in this environment a timeout so that the details of situations can be evaluated, so that declining or deteriorating financials on the part of a small business don't impair the bank's credit rating. Likewise, let us get the detail out and sort out. There may be some businesses legitimately that should go out, but with the pace of change that we are all experiencing, far too many are going out when they don't need to.

Mr. CHABOT. Thank you.

Mr. Bradbury, you stated in your testimony, "In talking to the bank, the feeling I get is that at the lower levels, they do not have a clear direction on what they can or cannot do in regards to loan approvals."

Could you go into that in a little detail, what you meant by that?

Mr. BRADEN. Well, the bank we are using, because credit lines and things are coming down, and it is just through the natural progression, that when you need to go and get a decision made at a bank about funding future growth, they want to go to their corporate headquarters to get an answer versus being able to have a direction at the bank level. So the loan officer doesn't seem to have a clear picture of what he has approved and what decisions he can make, and they are still trying to figure that out.

Mr. CHABOT. Thank you.

Mr. Franke, just a couple of questions. One, where do you all go from here? Do you have any kind of plans at this point? And how many employees were there that they lost their jobs over this period of time?

Mr. FRANKE. At the high point we were roughly 170. And my brother and I have one thing maybe in the works. We are talking, we have a nondisclosure. But we also have a guarantee to the bank, so we have to resolve that before we can move forward.

Mr. CHABOT. And how many other small businesses did you use as suppliers? I assume that this will have an impact on them as well?

Mr. FRANKE. Numerous, yes. There were independent wholesale people left in town, and some of the larger ones. But, yes, we used almost everybody that was involved in the building material supply.

Mr. CHABOT. Thank you very much.

Mr. WILSON. Congressman Chabot, may I follow up on that question?

Mr. CHABOT. Sure.

Mr. WILSON. One of the things I expressed in my testimony was a concern, and it is a natural concern, that in these times regulators become overly concerned about things, and they can contribute to a credit crunch. They are very concerned right now about commercial real estate, so all banks are under great scrutiny in that area. As a matter of fact, they have even set guidelines as to capital, as to how much a bank can have in commercial real estate.

SBA guarantees protect banks from the regulators in that regard, so I would just add while we are on the subject of SBA and the ability of SBA to help in this particular case, again expanding the SBA guarantees allows banks to put more money into small businesses without receiving criticism from regulators.

Mr. CHABOT. Thank you very much.

I yield back, Madam Chairman.

Chairwoman VELÁZQUEZ. Mr. Ellsworth.

Mr. ELLSWORTH. Thank you, Madam Chairman, for hosting this meeting, and thank you all for your testimony. We learned quite a bit.

Mr. Wilson, I was interested when you said you were conflicted on whether to support or at least take the rescue bailout and support that. We were conflicted, too. I think there were 435 Members that were conflicted.

How did you come down to your conclusion to think it was maybe not a good idea, but the idea at the time, to support that or at least encourage that path? It may not have been the bill that you would have written, but it was what we faced. What did you use as criteria to say it was probably a good idea at the time?

Mr. WILSON. I went back to how we got in the situation that we are in. And if you take a look the housing boom, the housing burst, the housing bubble, and you go back to 2006, which was kind of the banner year, 76 percent of the mortgage loans made that year, and we know that because of HMDA data, were made by the unregulated sector of the banking industry. That means that 24 percent were made by the regulated portion.

So, what happened was these loans were made no matter whether they were suitable or not. They were made by people who were receiving commission, not underwriting loans and putting them on their own books. So those loans were then sold, securitized, and amazing to me, but a lot of bankers bought those securities. So the net result was on the books of banks that may have said no to the loan, but said yes to the securities, those they are now calling toxic assets had tied up a tremendous amount of capital and liquidity. That had to change. There were banks in our area that simply could not meet the credit needs of their customers because they didn't have the liquidity or the capital to do that.

The investment banks in particular, that you are very aware of, were locked up with these assets and couldn't provide liquidity. When companies from General Motors down to small businesses went out to borrow, they found that either there was nobody willing to buy bonds or make the loans, or in the case of bonds, if they could sell them, a corporate bond, they were at extraordinary rates, 30 percent, 40 percent, et cetera.

In order to get our economy moving again, and if the economy doesn't work, no matter how good we are in Lebanon, Ohio, there is going to be a problem, the bill had to be passed, liquidity had to be injected into the system, and so I applaud Congress for taking that action.

Mr. ELLSWORTH. Thank you.

You said earlier in your written testimony that hearings like this allow us to discuss these issues and work together to restore confidence in our financial system.

What do you see now moving forward to restore the confidence in the small business owner with the financial institutions to get that moving? What would you see? We want to restore confidence in these guys at this end of the table.

Mr. WILSON. I think what they have to understand is the fact that we are small businesses also, for the most part. For example, the Small Business Administration defines a small business as less than 500 employees. By that definition, 8,100 community banks are small businesses. As a matter of fact, that is 97 percent of the industry. And even more telling, over 3,500, or 41 percent, have fewer than 30 employees. So there are a lot of options out there that maybe small businesses didn't pursue. Small business had access to a lot of different financing options, and many of them moved away from their community banks.

I would suggest that there are a lot of community banks out there with the capital and the liquidity and the desire to make loans, and you just need to keep looking.

Mr. ELLSWORTH. Thank you.

Ms. Dorfman, this Committee probably has the best chance of changing things within the Small Business Administration, and thank you for being here again and your honest testimony.

What changes do you seek, on this side of the table, could be made in the short term with SBA that we can really have an effect and we can go after between now and the end of the year or early next year that would provide the most short-term help?

Ms. DORFMAN. First of all, again, if you increase the loan guarantees and the limits, we do need to make sure that it is going to be 2 years or more. I personally faced a while ago when I got an SBA loan where it was 80 percent guaranteed, the banks—when it first came out that it was 80 percent, the banks had been lending at a 50 percent guarantee, and I was turned down, turned down, turned down, simply because they were not willing to restructure how they were going to be manufacturing the loan, in quotes. So if there is a long-term—you know, it is going to be that way for 2 years, then they are more likely to restructure how they do loans. So I think that is important.

We need to have increased lending authority, lower fees absolutely. Loosen up the rules on the credit-worthiness and also loosen up equity injection rules. Relax the rules for refinancing, especially credit card debt, since many of our small businesses are now having to turn to their credit cards to make ends meet in this time frame. Relax life insurance and job creation requirements. And then also allow those with current SBA loans that may need to restructure them for a lower payment to be able to do so.

So those are some of the thoughts we have had.

Mr. ELLSWORTH. Could I ask another question, just another for clarification?

Chairwoman VELÁZQUEZ. Yes.

Mr. ELLSWORTH. On that point, because loosening the rules of credit-worthiness, some would argue that is what got us into the loans that went to people that weren't worthy of loans, and that is why we are in this, and I am not talking about small business, maybe home loans.

How would you argue that? When I go home and say that is one of the things we want to change, they are going, that is what got us into this problem to begin with.

Ms. DORFMAN. If you take a look at home loans especially, what has happened is if, quote/unquote, you own your own business, and they view you as self-employed, even though you are bringing in money all the time, it is very difficult to get the loans that you might need. So there are times when some of the regulations need to be loosened, and certainly you need to take a look at that.

Mr. ELLSWORTH. Thank you, Madam Chairman.

Chairwoman VELÁZQUEZ. Thank you.

Mr. Franke, the reason we called this hearing today is to hear from you and see how can Congress take actions to be able to provide tools and help to assist small businesses, which are the job creators in our country. I can tell you that help didn't come soon enough for your business, but I hope that in the process of discussing a second stimulus package, that we are able to use the insights that we are getting from you today to be able to have some input into the end product of that second stimulus package.

So I would like to ask you, we know that the company you run has been in operation since 1925, and I am sure that you have faced many obstacles throughout that time. However, you discuss how the problems in the housing market compounded the challenges facing your lender.

Do you believe that if credit was made more available, that companies like yours might be able to rebound rather than shut their doors?

Mr. FRANKE. I think probably if they would have remained tightened earlier, we wouldn't have hit this wall. So now, yes, probably. But, yes, I would say probably so.

Chairwoman VELÁZQUEZ. Mr. Wilson, from your testimony, it is clear that banks want to lend, but again we have heard so many businesses express difficulty in getting loans. How can we resolve this disconnect and help businesses find lenders who are ready, willing and able to help?

Mr. WILSON. Well, the first step was to unfreeze the credit markets. I know so often we look at the financial markets as the major stock market went up, stock market went down, but it is really the credit markets where the problem lies. And no matter what our desire as a small bank is to make loans, if the larger banks and if the bond market is tied up and nonfunctioning, it will be very difficult to meet all of the needs in our country for credit. So, again, I think that it was very, very important that you moved forward as you did.

To Congressman Ellsworth's point, I know he was conflicted a bit, using that word again, on somebody wants a loan, we lower the standards, is that a good idea. And I would submit to you that it is not a good idea. I think that is what did get us into trouble. I believe that as a banker, we are doing our customer a favor when we tell them "no" if we truly believe they are not going to succeed. To make a loan to somebody that is going to result in their failure does not make sense, but to work with them to understand how they can move forward—and I know you indicated that if they would have kept their standards steady throughout, that you would still be in business today, and I believe that.

I received an e-mail the other day. That e-mail was from a customer that said they had come in to see me, and I know the year, because they said they asked questions about Y2K, so it was the 1999 time frame. That customer indicated that they had liked my answers, and they had opened accounts with our bank, and subsequently we turned down a loan to them. They were frustrated, they were angry, and they left our bank. His e-mail was to say he shouldn't have been granted that loan; that he is back, because if we would have told him no, he would have been in better financial stature at this point in time; and that he moved back to our bank because he appreciates the fact that we underwrite loans, that we are concerned about the success of our customers and the suitability of loans.

So, you are absolutely right. The answer is not to lower credit standards. It is to inject the capital and the liquidity.

Chairwoman VELÁZQUEZ. Yes, Mr. Bradbury.

Mr. BRADBURY. I would like to respond a little bit. I think we all can select anecdotal stories, in all fairness, Mr. Wilson.

There is real math at work here, whether we talk about a farmer whose input costs have gone up 100 percent, over 100 percent, his financials haven't changed, but to deny credit under those circumstances that is beyond his control, he or she hasn't changed a thing. In the case of our company, steel going up 85 percent. We spend $6 million to $8 million a month, and we don't get it back at the earliest until 90 days, usually 120 days, and to deny credit in those circumstances based upon those facts to me is not appropriate.

So, there are proper times when businesses are failing across the board, but we are in, in my view, very unusual times with $140, at one point, oil, steel up 85 percent, and some of the other figures. These for small businesses are just Draconian percentages that we have to deal with, and, frankly, we need the help of the banking community.

Thank you.

Chairwoman VELÁZQUEZ. Mr. Bradbury, over the past few months, there has been a wide discussion of the challenges facing the automakers in the United States. How important is the domestic auto industry for small businesses like yours and others across the country?

Mr. BRADBURY. Well, in automotive, there are many tiers of suppliers. There are five tiers up to the OEM level. We fit in the tier 2 to 3, meaning we have a loot of tiers below us that support us.

As credit tightens, there was a lot of weak companies already going into this. Fortunately for us, and I am going to kind of elaborate a little here, we have a fiscal responsibility to control our debt as a small company, and our stakeholders insist we pay our debts off.

Had that not been the case, I might be sitting in his shoes today, because we were about ready to grow and expand, not even a year ago, and because we ran into some issues with some bond financing on the property, we decided not to, and luckily that saved us a lot of extra costs.

But the communities, we supply $20 million in income into our community. That is a significant amount, in taxes, wages, not to mention all the other suppliers' products we buy. So there is a tremendous ripple effect that is present there if they start to collapse.

Chairwoman VELÁZQUEZ. Thank you.

Mr. Brown, you discussed that many small manufacturers are currently struggling with decreased demand for their products. Has your company's sales been affected, and are you considering layoffs or delaying expansion plans?

Mr. BROWN. We actually are in a growth mode. We are in a growth mode because we were concerned about the volatility in America. We approached the Kansas World Trade Center and also the U.S. Department of Commerce.

We didn't start exporting until just 3 years ago. With their help, we are now, as I mentioned in my testimony, exporting to Russia, Kazakhstan, Ukraine, Australia, a little bit to the U.K., and we are developing the skills. Frankly, there is a huge body of knowledge on how to finance it, Ex-Im Bank and the paperwork that is required. This is an area both for Krause and the small enterprise Committee that we are going to aggressively go after.

Our strategy, because of the volatility within America, has been to stabilize by going global. When America goes through the spasms, and that, in my view, is what this is, this has provided a buffer. So, we actually are growing. I think agricultural equipment producers generally have been growing this past year because of the global shortage of food. Construction equipment, conversely, very much mirrors the general economy, the reduction in infrastructure, bridges, building, residential. They are hurting to a greater extent than my company is.

Chairwoman VELÁZQUEZ. Thank you.

Mr. Chabot?

Mr. CHABOT. Thank you, Madam Chair. I just have a couple of questions.

Mr. Wilson, could you comment on to what extent the high energy costs that we had over the last year or so, whether it is gas or diesel, what impact you think that had on small businesses and the economy, if it did, if you think it did; and then what, if any, impact do you think the rapidly falling price at the pump—I saw it as low as $1.99 in Cincinnati yesterday, at least four stations had it at that, so it has come down pretty quickly. Some of the reasons, unfortunately, aren't the best, obviously, because the economy is tough right now.

Could you comment on that?

Mr. BROWN. I am sorry, I thought you said Mr. Wilson.

Mr. CHABOT. If I did, I apologize. I meant you. I have my next question for Mr. Wilson.

We can't see your names down there. We spend all this money on the new room, and we can't see your names.

Mr. BROWN. Energy costs are critical in agriculture. Fertilizers, what has happened in fertilizer is extraordinary. By order of magnitude, 5 years ago, anhydrous ammonia, which is the primary nitrogen fertilizer, was between $120 and $180 a ton. This past year, it was $1,200 a ton. It is made from natural gas primarily. It has now, quote/unquote, dropped to $800 a ton.

So the impact of high energy costs have driven inflationary ramifications throughout every industry, agriculture notwithstanding. Certainly on the construction side, the reduction of allegedly of 1 billion miles a month of driving and the order of magnitude like that has had a very dramatic impact as well.

So, the drop for us personally, our company, the drop to $70 oil, while it will be helpful, pales in comparison to our cost of steel and health care.

Mr. CHABOT. Thank you.

This time I did mean the question to you, Mr. Wilson, if I could. Did you have a comment?

Mr. BRADBURY. Yes. In automotive, plastics are all made with oil resins. So as oil went up, plastics went up, and you saw a lot of bankruptcies in the plastic industry because we can't pass our increases on to our end customers. We also get charged, we have daily shipments coming into our plants. There are surcharges on all of those for gas. So as that comes down, that does help us in that it will reduce costs over time.

It also goes to the model mix in the automotive. Many people were buying large SUVs and trucks and vans. That changed overnight. I mean, there was a huge percentage drop in those vehicles. They are starting to creep back up, which will stabilize the market a little and buy time to meet the CAFE long-term.

Mr. CHABOT. Finally, Mr. Wilson, could you comment, you are familiar with the mark to market accounting changes that were made some time ago. Could you comment on the impact that that had on this whole financial mess that we have seen recently? There have been some changes suggested and I think that are in the process of being implemented. But could you comment on that whole process and how that has affected the banks and how your books look and why you can or can't lend because of that?

Mr. WILSON. It has been a major impact, and the impact has been that it takes liquidity off our books. If we have to write down a security that we have no intention of selling, we are going to hold to maturity, it is going to be worth its face value, yet according to those accounting rules, it is worth today half, say, of what it was. Well, that is that much liquidity, capital, that comes off our books.

Mark to market is an interesting thing. If we mark to market both sides of the balance sheet, if we mark everything to market, our buildings, et cetera, et cetera, both sides of the balance sheet, there might be some sense to it. But to just simply pick off things out of the balance sheet and have us mark them to market is a bad idea. It is an idea that when the FASB or the Accounting Standards Board comes up with something we have to comply with. That is why in my testimony I indicated that I would hope there could be an oversight board for accounting that would think of the consequences of these things to our economy. It is all done in the sense of transparency and making things more visible to shareholders, et cetera.

Well, I would argue if you don't mark to market the entire balance sheet, you are causing wide swings that don't need to happen and are not representative of what is really going on with our bank's balance sheet.

So, thank you for asking that, because that is something that is of great concern to us.

Mr. CHABOT. Thank you. That was one of the things which contributed to this credit crunch, where banks weren't able to loan, which put us in this terrible position; is that correct?

Mr. WILSON. That is correct.

Mr. CHABOT. Thank you very much. I yield back, Madam Chair.

Chairwoman VELÁZQUEZ. Mr. Ellsworth.

Mr. ELLSWORTH. Thank you, Madam Chair. I don't mean to ignore the three gentleman at this end of the table. My question seems to aim more at Ms. Dorfman and Mr. Wilson.

If the both of you, on the chance that there are entrepreneurs out there watching this program today, what advice would you give to someone baking cookies or whatever on where they should go? They are having trouble getting credit, they are balancing the books, they are not balancing the books. What would you tell the entrepreneur today where to start looking for those lines of credit?

Mr. Wilson, would you tell them come into the bank, check and see? Ms. Dorfman, what would you tell them, SBA? If you could touch on that.

Ms. DORFMAN. Well, first of all, most of our members are more what we call the midlevel businesses. They are manufacturers, technology, professional services, a lot of construction folks. So their challenges are quite a bit different than what you are referring to as a start-up.

The start-up, there are resources out there, the Small Business Development Centers, they could stop in and start the process of understanding how to start a business and what is needed to move forward.

I think with the businesses that we deal with, it has been very difficult, because they have relationships with their banks, and their banks have just cut them off, and that is the issue.

Another example you had mentioned, you know, loosen up the rules of credit-worthiness. Well, in the cyclical world which many of our members operate in, they know that they are going to get the check in 30 or 60 or 90 days, but that is not going to fulfill what the bank has to do from a regulatory standpoint. So they are not able to access that credit for that short term to really be able to pay their employees and keep the business going. And that is the challenge.

Mr. ELLSWORTH. Thank you.

Mr. Wilson, any comment on what you would tell the person out there, the business owner?

Mr. WILSON. A couple of things. Number one, I would not give up. I think that a lot of businesses that are in difficulty have not tried to access the SBA programs. That is one important way to go.

Another thing is when you are talking to your community bank that you have worked with for a long time, if that is your relationship, and they tell you that they think building that new building or doing whatever is a bad idea because of numbers, cash flow, et cetera, I would suggest that they listen.

It is a very difficult time right now, and while we want the economy to grow and prosper, individual businesses must be very cautious at this point in time, because if they are not, survival becomes an issue.

Mr. ELLSWORTH. Thank you all very much, Madam Chairman. I yield back.

Chairwoman VELÁZQUEZ. Mr. Wilson, in your testimony you note that the economic disruption is now affecting commercial real estate and small business lending. Do you believe that small businesses will have greater access to financing if the TARP were used to purchase or guarantee a broader class of loans, including commercial real estate and small business loans?

Mr. WILSON. I do indeed. If we expand that program to guarantee not just mortgage loans, but to guarantee commercial real estate and small businesses loans, there is no doubt that that would provide more access to credit. There are a number of things that I had in my testimony, the SBA, what Congressman Chabot referred to as accounting standards. Anything that provides more liquidity to the banking system is going to make them more able and more willing to lend.

Chairwoman VELÁZQUEZ. Mr. Wilson, I believe that Congress has given the authority to the Secretary of the Treasury to use TARP and to extend it to include commercial real estate and small business loans.

Mr. WILSON. That program is not in place, to my knowledge, at the present time.

Chairwoman VELÁZQUEZ. They are working on regulations. What I am saying is we do not have to revisit the law that we passed, because the authority is already there, and we will work with Treasury for them to understand that it will be an important tool for small businesses.

Mr. WILSON. Thank you.

Chairwoman VELÁZQUEZ. Mr. Brown, you mentioned that many rural Americans and small businesses as a result of the current crisis are losing faith in our economic system. Why do you believe that there is a crisis of confidence?

Mr. BROWN. Thank you. The rural Americans, frankly, are looking for solutions to the problem rather than handouts. The example I would use, and I will use both construction and agriculture, and I think I can speak for the gentlemen to my right, we would much rather have markets restored, a vibrancy of the competitive environment, that we can continue to do what we do best, rather than many of the programs that are being discussed.

Rural America doesn't see or feel often these programs impacting them. I am not an accurate historian, but I am going to use an example. Twenty years ago when Japan went through a similar housing situation, they, meaning the central government, did not allow unemployment to exceed 6 percent. They invested hugely in roads and bridges and dams and other areas that continued business in all locales of the economy.

So, the bottom line for rural Americans, it is kind of a tangible. Let us do something that is proactive and positive, rather than just dole out money.

Chairwoman VELÁZQUEZ. Mr. Chabot, do you have any other questions?

Mr. CHABOT. No.

Chairwoman VELÁZQUEZ. I would just like to ask my last question to any of the members of the panel. As you know, there are discussions here about a second stimulus package. And I hear you, Mr. Brown, but maybe other members of the panel have other opinions regarding any type of proactive action taken through a second stimulus package.

If we do have the opportunity to work on a second stimulus package, what would you tell Congress should be the first or top priority regarding any second stimulus package?

Mr. Wilson?

Mr. WILSON. You have a very difficult task there. You are riding a very thin line between knowing when to stimulate the economy and not creating future problems. If you overstimulate the economy, if you do more than you have to do now, and I am not saying you are, it is just a challenge that you face, we are going to face increasing inflationary pressures in the future, we are going to increase the national debt in the future, so we are passing on to future generations what we do today.

It is important to get the economy moving again. It is important that you look at things like additional packages, stimulation packages. But be cautious, be careful, because you don't want to overdo it.

Chairwoman VELÁZQUEZ. Any other comment from any of the other Members?

Ms. DORFMAN. I would agree that getting money back into the small business pockets, many of our members say, you know, give us the sales. That is what will keep us going. So if there are programs such as Mr. Brown had discussed where the small business owner actually gets access to those contracts, then that would be great. That would work very well for them.

Chairwoman VELÁZQUEZ. Mr. Brown?

Mr. BROWN. Yes, thank you again.

I would strongly urge the first consideration be aimed at what we call the capital goods industry, manufacturing and producing something that has lasting and sustainable value.

I personally face a decision whether to continue to build some of our product in the United States or build it in Russia, and I haven't got a clue what it is like to build in Russia. I am not sure I even want to do it.

But if we don't start investing in basic manufacturing and the basic capital goods industry in this country, and we continue the outsourcing that has occurred, no amount of consumer stimulus will solve the problem.

Chairwoman VELÁZQUEZ. Mr. Bradbury?

Mr. BRADBURY. I agree with Mr. Wilson in the sense of what is the right amount of growth and what is the right amount of risk? How much debt is too much, and how much growth is too much?

You know, we are in the automotive industry, and our industry has gone global in the last 3 years. We opened a plant in Asia, and we had to increase our overhead in order to manage it. In my testimony, I mention the fact that there is opportunity to challenge Americans to achieve new heights. We are a society that can rise to the challenge. We have seen it time and time again.

The CAFE is a challenge. It is something that we have to achieve. It can drive a new business opportunity for Americans to aspire to become the leaders in the world in those types of things.

But we need enough funding to be able to generate the type of investments we need to make to survive here in this country first.

Thank you.

Chairwoman VELÁZQUEZ. Mr. Franke?

Mr. FRANKE. I guess the only thing I could say is I would love to go back to 2005 and make some different decisions based on this isn't going to last forever. That is all.

Chairwoman VELÁZQUEZ. Mr. Chabot?

Mr. CHABOT. Just one final comment. I would like to again thank you holding the hearing and want to thank all the witnesses for their testimony. I think it has been very helpful and informative for the Committee.

I want to especially again thank Mr. Franke. We have had a lot of witnesses from Cincinnati, and generally they have happy endings. Unfortunately, this is one that is very sad, especially for those employees whose jobs had to be eliminated, and I am sure for your family, to have been in existence for 125 years. Obviously it was a very significant change in the environment that you operated in that has resulted in this.

So our condolences, and we certainly hope that your family does as well as possible and the employees to the extent that you can help them as well. We thought this was a story that needed to be told in these very tough economic times. Thank you for sharing it with us.

I yield back.

Chairwoman VELÁZQUEZ. I echo the comments made by the Ranking Member. I will say that the record of this hearing today will be made available during any discussion with the leadership in terms of a second stimulus package.

The intent of this hearing was precisely that. Any time that we sit at the table to have meaningful discussions regarding how can we best stimulate our economy, and what type of tools can we provide for small businesses to enable them to continue to grow our economy, that was the main reason for us to call this hearing. So I want to take this opportunity to thank all of you for your insightful information.

Mr. Franke, to you, thank you for your willingness to come and tell the story. So many times we discuss the economy and the numbers and the unemployment rate and the deficit, but there is a human face to all those numbers, and you signified that at such a great level.

I ask unanimous consent that Members have 5 days to submit a statement and supporting materials for the record.

Without objection, so ordered.

Chairwoman VELÁZQUEZ. This hearing is now adjourned.

[Whereupon, at 11:40 a.m., the Committee was adjourned.]

NYDIA M. VELAZQUEZ, NEW YORK
CHAIRWOMAN

STEVE CHABOT, OHIO
RANKING MEMBER

Congress of the United States
U.S. House of Representatives
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515–6315

STATEMENT
Of the Honorable Nydia M. Velázquez, Chairwoman
United States House of Representatives, Committee on Small Business
Full Committee Hearing: "Financial and Economic Challenges Facing Small Businesses"
Tuesday, October 28, 2008, 10 a.m.

This September-- in the face of a collapsing housing market and a staggering crash on Wall Street--Congress took action. Since then, talk of the growing financial crisis has dominated American conversation. From Capital Hill Hearing Rooms and Newspaper Editorial Boards to Kitchen Tables across the country, it seems everyone has a theory about how we got into this mess. And now, of course, everyone has an opinion on how we should get out of it.

Congress is now contemplating the next steps in stemming the financial fallout. As the process moves forward, countless economic models and philosophies are up for consideration. But while it is all well and good to discuss the theory of financial crisis, it is far more important to hear from the people who are living it. It is far more important to understand and act on what Main Street is actually facing. In today's hearing, we will do just that.

This morning, we will hear from small business owners who are experiencing the full effects of the current downturn. Like the rest of the nation, they have watched their home values plummet and their 401k's evaporate. Now, they are seeing their piece of the American dream suffer, too.

This committee recently compiled a report on the effects of the financial crisis on small businesses. The results of the study, which we are releasing today, were nothing short of astounding. As today's witnesses can attest, small businesses in every corner of the country-- spanning every segment of the economy-- are suffering. The reality is that many small firms are struggling to meet the most basic obligations, such as making payroll and stocking their shelves. Not surprisingly, the credit crunch is largely to blame for this. And the extent to which that is true is quite startling.

Small businesses are facing credit lines that have been drastically reduced and, in some cases, revoked altogether. The recent Federal Reserve Senior Loan Officer survey found that 65 percent of lenders are enforcing stricter loan standards. That figure is up a full 58 percent from one year earlier.

Even small firms that have managed to make ends meet are now abandoning plans for growth-- efforts that would otherwise create jobs. According to the National Federation of Independent Businesses' monthly Index, few small firms have immediate plans to expand or hire additional workers.

During past recessions, the Small Business Administration has served as a lifeline for struggling startups. Unfortunately, even these programs are on the decline. With SBA funding down 25 percent from 2007, many fledgling companies--the sort that drive innovation and expand industries -- may never get off the ground.

There are a lot of different takes on the current financial crisis, and even more opinions on how we should dig our way out of it. But regardless of your thoughts on the matter, one thing is very clear-- small businesses will be the key to economic turnaround.

Whether it is by expanding the SBA's role or providing targeted tax relief, entrepreneurs must have access to all the tools they need. They have powered this country out of other recessions, and they can do it again today.

While current circumstances may be different from those in the past, the blueprint for recovery remains the same. More jobs, and greater economic growth--that's the formula we need, and that's the formula small businesses can provide.

U.S. House of Representatives

SMALL BUSINESS COMMITTEE

Tuesday, October 28, 2008

Representative Steve Chabot, Republican Leader

Opening Statement of Ranking Member Steve Chabot

"Creating Opportunities for Small Businesses in an Economic Recovery"

"All of us are aware of the recent turmoil and continuing volatility in the financial markets. These problems also touch America's small businesses. Availability of credit is reduced, thereby dampening the capacity of small businesses to create needed jobs. Yet, it is not just the availability of credit that bothers America's small business owners. They are also ordinary men and women with the same concerns about the value of their homes, the safety of their investments, and outlook for the future of their children that every American has in these uncertain times.

"Given the current situation in the American economy, policies must be developed that help unleash the power, flexibility and vitality of the America's small business owners. Those policies require reductions in the federal deficit, lowering taxes, and making healthcare more affordable for our small business owners.

"Recent actions by the federal government have increased its borrowing and debt ceiling. The federal government, then, is competing for debt capital with the all businesses, including small businesses. I suspect that the witnesses before us today probably cannot compete in the credit markets with the single most-creditworthy borrower the world economy has ever seen – the United States government. Thus, to borrow money, the small businesses represented here and the 25 million small businesses across the country will have to pay higher interest rates to attract the credit they need to operate and expand their businesses. We can reduce this hidden and insidious tax on America's business owners by reducing the federal deficit and eliminating unnecessary and wasteful spending.

"In addition to the hidden 'tax' associated with higher interest costs, some of America's small businesses also face the prospect of paying higher taxes under some of the proposals discussed in this year's Presidential campaign. Increasing the cost of credit AND increasing taxes that small business owners must pay is a double-whammy that these individuals and the American economy can ill afford.

"If we raise the cost of operating their businesses, America's small business owners will limit hiring and investment. In turn, this will reduce economic growth and inhibit recovery from the current turmoil in the economy. Any stimulus package that Congress considers must not raise taxes on the most productive part of the American economy – our small business owners. In fact, the stimulus package should reduce taxes on small businesses so they have more money to spend in the manner they best see fit rather than relying on how government bureaucrats think money should flow into the economy.

"There is no doubt that all American businesses have made cutbacks in spending, including providing healthcare to their workers. This has been a longstanding problem for America's small businesses that has been exacerbated by the recent volatility in the financial markets. Congress must find ways to make the provision of healthcare more affordable to America's small businesses. One such possibility would be to include the enactment of association health plans in any stimulus package. Such plans have met with bipartisan support, including that of the Chairwoman's.

"No one can deny that recent weeks and months are placing a strain on the finances of all Americans, including America's small businesses. Increasing the size of government, expanding the deficit, and raising taxes simply is the wrong prescription for what ails America. Congress must exercise its power wisely by reducing the deficit, lowering taxes, and improving the ability of small businesses to provide health care to their workers.

"Before closing, I would like to thank the witnesses, particularly Thomas Franke from my district in Cincinnati, for taking the time out of their busy and hectic schedules of running a business to come to Washington and provide their views to the Committee."

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Statement of Rep. Jason Altmire
Committee on Small Business Hearing
"Creating Opportunities for Small Business
in an Economic Recovery"
October 28, 2008

Thank you, Chairwoman Velazquez, for holding this important hearing on the impact of the current economic turmoil on small businesses. Right now, the economy is the number one issue on everyone's mind. When I am in my district, small business owners and constituents want to know what Congress is going to do to help them during this uncertain time.

Although the Wall Street bailout that Congress passed earlier this month addressed some of the economic issues we are facing, it did not go far enough for small businesses. Small businesses are still facing tightening lines of credit, rising costs of materials and health care, and many are scrapping plans to expand their business or hire more employees. All of these factors not only harm small businesses, but they also affect the economy as a whole. Small businesses are the backbone of our economy and it is essential that they have the support they need. As we look toward the future and the possibility of an additional stimulus package being enacted, it is imperative that we take steps to ease the financial burdens on small businesses.

I look forward to hearing from our witnesses today and hear about their experiences during this economic downturn and hear first-hand the impact it is having on small businesses. Thank you again, Madam Chair, for holding this important hearing.

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October 28, 2008

Testimony of

Stephen Wilson

On Behalf of the

AMERICAN **BANKERS** ASSOCIATION

Before the

Committee on Small Business

United States House of Representatives

Testimony of Stephen Wilson
On Behalf of the
American Bankers Association
Before the
Committee on Small Business
United States House of Representatives
October 28, 2008

Madam Chairwoman and members of the Committee, my name is Stephen Wilson, Chairman and CEO, LCNB Corp. and LCNB National Bank, Lebanon, Ohio, and incoming Chairman of the Government Relations Council of the American Bankers Association (ABA). LCNB National Bank is a full-service bank offering trust and brokerage services, along with insurance through a subsidiary. We have over $650 million in assets and our bank has served our community for 133 years. I am pleased to be here today on behalf of ABA. ABA works to enhance the competitiveness of the nation's banking industry and strengthen America's economy and communities. Its members – the majority of which are banks with less than $125 million in assets – represent over 95 percent of the industry's $13.3 trillion in assets and employ over 2.2 million men and women.

This hearing is very timely. Our nation is certainly facing difficult economic conditions. It will clearly take time to work through these problems. We need to collectively look for solutions that will ensure a fast recovery. I have always believed that we must be realistic about the present and hopeful for the future. Hearings like this allow us to discuss these issues and work together to restore confidence in our financial system.

In spite of the difficulties faced by all businesses – including banks – in this weak economy, I want to assure you that the vast majority of banks continue to be well-capitalized and are opening their doors every day to meet the credit and savings needs of their customers. We applaud the efforts of Congress to find solutions, particularly the speed with which you enacted the Emergency Economic Stabilization Act. Although these actions are not ones that the regulated banking industry sought, they should provide the financial backstop needed to unfreeze the financial markets and ensure that credit is available to consumers and businesses on Main Street. This, combined with the actions taken by the Treasury, Federal Reserve and the FDIC this month, will certainly help free up capital, which has been nervously waiting on the sidelines. That said, we remain concerned that regulatory and accounting policies could exacerbate the situation and make it more difficult for banks like mine to lend.

The focus of the Committee on Small Business is particularly important, as consistently small businesses are drivers of new ideas, new employment, and new economic growth. For banks like mine, small businesses are our bread and butter. While some might think of the banking industry is composed of only large global banks, the vast majority of banks in our country are community banks – small businesses in their own right. In fact, the Small Business Administration defines a small business as one that has fewer than 500 employees. By this measure, over 8,100 banks – 97 percent of the industry – would be classified as small businesses. Even more telling, over 3,500 banks (41 percent) have ***fewer than 30 employees***. Banks like mine have been an integral part of our communities for decades – sometimes more than a century – and we intend to be there for many more to come.

In my statement today, I'd like to cover three points:

- Ensuring that adequate liquidity and capital are available is critical to maintaining the flow of credit to small businesses.

- Banks, large and small, believe that the Troubled Asset Relief Program can be helpful, although the structure and pricing of the program will impact their willingness to participate and the impact of the program.

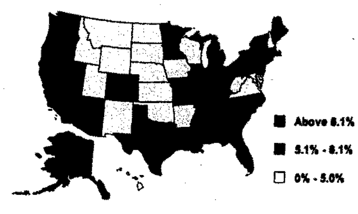
- Additional measures would help small businesses, but care must be taken not to enact policies or regulations that would further restrict the availability of credit that is so vital to our economic recovery.

I. Ensuring that adequate liquidity and capital are available is critical to maintaining the flow of credit to small businesses.

Our country is in the midst of the most challenging economic period since the recession of 1990-1991. While the dislocations and problems were substantial then as they are today, one important lesson from the 1990-91 experience is that the economy emerges with a strong base capable of supporting long-term economic growth. Indeed, according to the National Bureau of Economic Research, following March of 1991 there were 120 months of economic expansion, the longest period of prosperity since tracking began in 1854.

Unemployment Rate By State
September, 2008

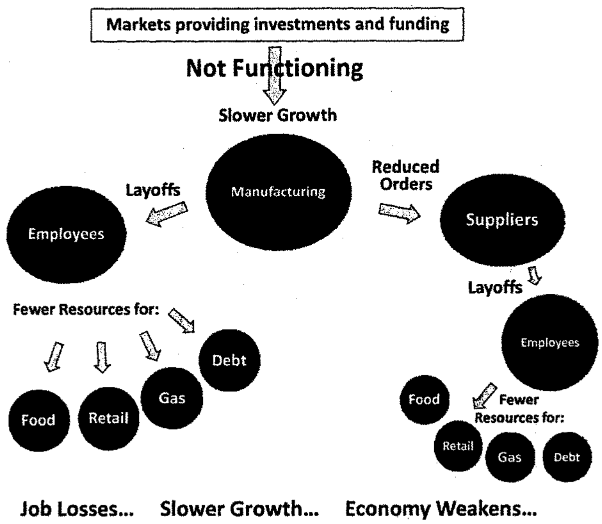
September National Rate, 6.1%



Source: Bureau of Labor Statistics

What makes our current ***national*** economic circumstances so difficult to discuss is that there are such dramatic ***regional*** differences in economic performance. This chart, showing unemployment levels for states across the U.S., makes the variability clear. Many states are either in recession or very close. The causes of these problems are varied. States such as Michigan, Indiana, and Ohio are suffering fundamental economic problems, which are largely tied to the fortunes (or misfortunes) of the auto industry. For example, in southwest Ohio, where our bank operates, the employment picture is expected to deteriorate even further in the short run. Several factors are involved, but most important are three major plant closures. In Batavia, Ohio, Ford is closing a transmission plant, which will eliminate over 1,000 jobs. In Moraine, Ohio, GM is closing an assembly plant, which will eliminate over 2,500 jobs. And in Wilmington, Ohio, DHL is closing a hub, which will eliminate over 10,000 jobs. The effect of these job losses is a major concern not just for our bank, but for the hundreds of small businesses that serve these plants and these employees.

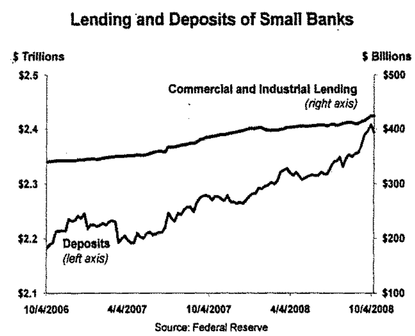
This is a real-world illustration that what happens in global markets for liquidity, and what happens with the funding of very large businesses, has important implications for small business lending. This is why the action taken by Congress was so important – freeing up capital that has been nervously sitting on the sidelines. The chart on the following page shows how difficulties in funding for large businesses – which go directly to the markets for funding rather than through banks – ***ends up affecting small businesses***. Most community banks are not involved in lending to large manufacturers or other large business. However, community banks do lend to the employees of these companies and to the small businesses that sell supplies and services to the large companies – tools, office supplies, carpet installers, to name just a few. Each of these smaller suppliers of important every-day needs for larger businesses will find themselves short on cash because the larger businesses do not have the short-term liquidity to meet their obligations. This disrupts the flow of business to smaller businesses, which in turn will reduce costs in many areas, cutting back on staff and services used to make the business run. Thus, improving liquidity and funding for large corporations is critical to the economic health of many smaller businesses.



In other areas of the country, the housing downturn has caused or exacerbated problems. For example, communities are struggling in California, Florida, Nevada, and other states, which led the nation in rapidly appreciating home values from 2002 through 2006.

Some geographic regions, including Texas, Utah, Montana and parts of the Northeast and Northwest, continue to show growth. Indeed, many businesses in these areas are involved in exports (including food and energy) which have done quite well over the last year. In fact, the exports sector is largely responsible for keeping the U.S. economy from officially entering a recession. Nevertheless, the global economy is slowing, and the export sector is expected to slow soon. It is likely that this will affect small businesses and, in turn, will affect small banks.

For small businesses, the availability of credit is vital to their continued success in their communities. Banks continue to make loans to small businesses in their communities. However,



the demand for small business lending has fallen in recent months – even recent weeks – and this is most pronounced in areas of the country hardest hit by the housing downturn. However, the perception that there is no lending taking place is simply not true. At our bank, for example, we have the liquidity, capital, growth, earnings and asset quality necessary to meet the credit needs of the communities we serve and the needs of our small business customers. We have the capacity and the desire to make loans. This chart of weekly Federal Reserve data on small bank lending and deposits shows that deposits are ***increasing*** at small depository institutions, and with them, loans. It is vital to keep this economic activity moving as the economic situation moves toward resolution.

Indeed, the October Survey of Small Business Economic Trends, conducted by the National Federation of Independent Businesses (NFIB), confirms this. In the survey, they note that, although credit is generally more difficult to obtain, regular borrowing activity is down, reflecting a decrease in demand, as well. Only 6 percent of those surveyed reported problems in obtaining the financing they desired, while one-third reported that all of their borrowing needs were met. This illustrates that capacity is available from banks, but demand has decreased, indicating that broader economic problems are hitting small businesses.

Thus, as worldwide liquidity has frozen and as the housing problems become a broader economic problem, all businesses, including banks, are affected. In this environment, banks are being naturally more conservative. More questions are being asked of borrowers as the risk of lending today is considerably greater than several years ago. Borrowers are also being more careful, and the demand for loans is declining. With all of this disruption, let me assure this committee that creditworthy borrowers will always have access to credit. Banks are anxious to meet the credit needs of small business and we know that such capital is vital to an economic recovery.

II. Banks have indicated a willingness to participate in the Troubled Asset Relief Program, although the structure and pricing of the program are important considerations for participation and will affect the impact of the program.

The historic legislation that was recently enacted, the Emergency Economic Stabilization Act, contains a number of provisions that will help to assure capital and liquidity is available to facilitate credit availability. The temporary increase in deposit insurance to $250,000, the tax loss treatment of Fannie Mae and Freddie Mac preferred stock, and the Troubled Asset Relief Program (TARP) should help to accomplish this goal. Issues with mark-to-market accounting have not yet fully addressed, and ABA urges Congress to consider creating an accounting standards oversight board to ensure standards reflect the situation of businesses and do not cause unintended consequences.

Community bankers have reservations about whether government cash infusions can help them. These banks have been serving their communities throughout this crisis. They are well-capitalized, and are making solid loans. These banks have already been hurt deeply by this crisis. It is a classic case of how healthy, well-regulated institutions are badly hurt by unscrupulous players and regulatory failures. First, these banks watched as they lost loan business to mortgage brokers and others who made loans to consumers that a good banker just would not make. Second, these banks watched their local economies suffer when the housing bubble burst. Third, these banks watched the reputation of their industry be tarnished as the word "bank" was used to cover all sorts of financial institutions that were not, in fact, banks. They cringed as they heard Bear Stearns, Lehman Brothers, Fannie Mae, Freddie Mac, and even AIG referred to as "banking failures." These bankers do not want or need any government bailout; they want their insurance fund to handle any problems – as it has – including problems with such large institutions as WAMU and Wachovia. ***It is a solution that these banks did not seek for a problem they did not cause, and yet all of it is often labeled the "bank bailout."***

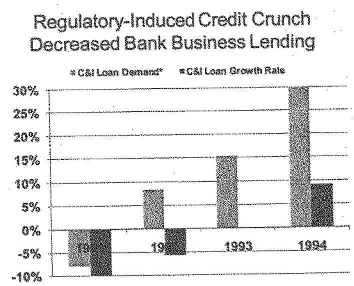
Community bankers are remain concerned about whether the TARP program can help them – and indeed perceive that it may do them harm. Community banks do not have enough securities to be of interest in large-volume purchases of illiquid financial assets. In addition, community banks worry that arbitrary decisions about the health of their institutions will affect how Treasury chooses to implement capital infusions.

Nevertheless, based on conversations with ABA members, we believe that about half of them may participate in the program, depending on the details of the program and the economic benefit it might provide to individual institutions.

Since most community banks make and hold loans, it is not surprising that having an avenue available to sell whole loans is of particular interest. Many banks believe that using TARP funds to ***guarantee*** loans would be an efficient and effective use of the funds. This would have the advantage of leaving the relationship between the bank and the borrower fully intact, but would put a floor on losses, while freeing up capital to meet new loan demand. Moreover, while the root of the current economic problems has been with residential mortgages, the economic disruptions are spreading into commercial real estate and small business loans. Thus, banks generally believe that TARP funds should be available to purchase or guarantee a broader class of loans.

The first action of the Treasury, of course, with regard to TARP funds has not been with the purchase of troubled assets, but rather a direct capital injection into healthy banks. This action was announced this month, and has only begun to be implemented. Many banks were initially concerned – and still remain concerned – that the market will incorrectly perceive this as a sign of weakness in the industry. In addition, many banks have misgivings about the government taking an ownership position in our banks. As I stated earlier, this solution was not something that banks asked for, as the vast majority of banks remain well-capitalized and have the financial wherewithal to absorb losses in this environment. Banks like mine continue to meet the needs of our customers. Nevertheless, the participation of nine of the largest banks will send a signal that markets should be completely confident in the strength of U.S. banks. Since this announcement, many banks have expressed an interest in participating, although for many banks, this looks to be difficult to accomplish. The universe of institutions that Treasury ***may*** invest in is very large; however, the requirement that Treasury purchase senior preferred shares ***only*** may make it difficult for many institutions to participate. For instance, non-publicly traded institutions, S corporations, and mutuals do not fit the program as outlined. Treasury has expressed the desire to work with institutions that wish to apply, allowing for flexibility of application dates and extra time to obtain documentation. It will also be important for regulators to recognize that many well-capitalized banks have sufficient liquidity and are meeting credit needs in their communities. These banks may not want to participate in the program and no negative consequences should come from that decision. This decision should be respected and allowed.

This brings up a very important point of the involvement of regulators in mitigating – or exacerbating – the credit crunch. The current regulatory environment is unquestionably impacted by the regulatory concerns flowing from the economic downturn. A natural reaction is to intensify the scrutiny of commercial banks' lending practices.



* Net Percent of Respondents Reporting Stronger Demand for bank C&I Loans
Sources: Federal Reserve Senior Loan Officer Opinion Survey and FDIC Quarterly Banking Profile

One needs only to look back at the early 1990s to see what can happen when there is a regulatory over-reaction to an economic recession with roots in residential and commercial real estate problems. At that time, whether intended or not, the loud and clear message that bankers received from the regulators and Congress was that only minimal levels of lending risk would be tolerated. On the surface, this might have seemed reasonable – there is little doubt that economic consequences of a banking system with too much risk are not acceptable. But just as too much risk is undesirable, a regulatory policy that discourages banks from making good loans to creditworthy borrowers also has serious economic consequences. Wringing out the risk from bank loan portfolios means that fewer loans will be made, and that only the very best credits will be funded.

A comparable scenario may be developing in today's regulatory environment. A bank can reach the point (as many did in the 1980s and 1990s) where regulatory actions reduce bank resources available to fund new loans. This includes being required to obtain new appraisals on properties for fully performing loans and to mark the value of collateral to current market values even though there is little expectation that the bank will be relying on the collateral for repayment of the loan. Taking a snapshot of a bank's assets during the low point of an economic cycle and forcing the bank to reflect the worst-case scenario on its books runs the risk of bringing about the very consequences that the banks and their examiners are trying to prevent – causing the bank to retrench, reducing banking lending overall. To avoid this outcome, we have been urging the regulators to keep in mind that markets are cyclical and that not every worst-case scenario will occur if the market is left to function without inappropriately restrictive intervention.

The great challenge may be to ensure that regulatory personnel out in the field are applying the measured approach that has been expressed so far by agency leadership. Increasingly, we are hearing troubling reports from our membership that regulatory mistakes of a decade ago are playing out again today. What the regulators want for the industry is what the industry wants for itself: a strong and safe banking system. To achieve that goal, we need to remember the vital role played by good lending in restoring economic growth and not allow a credit crunch to stifle economic recovery.

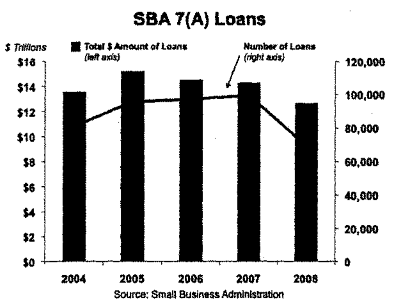
As the emergency program is implemented, it is very important not to create a conflict in policies – on one hand encouraging lending through new capital released from the TARP program and on the other hand discouraging lending through restrictive examination policies. This would be like spurring a horse to run faster while pulling back on the reins. Such conflicting efforts only waste resources and do not accomplish the goal of expanding lending to small businesses or individuals.

III. Additional measures would help small businesses, but care must be taken not to enact policies or regulations that will create unintended consequences

As I mentioned in the beginning, banks have continued to support the financial needs of our local communities. There are several measures that would help banks to facilitate this support, providing further liquidity and capital investment at a time when it is much needed.

SBA programs should be simplified, fees should be lowered, and guarantees should be increased.

SBA recently revealed that fiscal 2008 loan volume figures show a 30 percent decline year over year in its flagship 7(a) loan guarantee program. The economy is certainly playing a significant role in overall loan volume decline. However, many lenders are concerned that this decline is also due to SBA programs becoming too costly and difficult for lenders and small businesses who wish to access the program. While I believe that the SBA Loan Guarantee Programs should be self-funding to ensure their continued availability, there are times that Congress should provide some funds to reduce fees to make the programs more affordable to borrowers. Current market conditions suggest to me that this is one of those times that Congress should allocate some funds to keep the small business community going.



Another issue is the complicated process that both banks and businesses have to go through to apply for loans. Right now the procedures manual is 400 pages long. Believe it or not, that is less than half its former size; clearly, great strides have been made. However, progress needs to continue in order to attract lenders and bring this program to more small businesses. Now is the time to make this process easier and cheaper for small businesses and the banks who serve them.

Perhaps the most direct way to stimulate more involvement in the program is to provide a temporary increase in the federal guarantee provided on SBA loans. This would extend the program to many more communities across the United States and provide more loans to deserving small businesses.

Fair value measurement rules should reflect true fair value.

Banks of all sizes have cringed as they watched the book value of assets spiraling downward because of the application of accounting rules. The mark-to-market rules required by the Financial Accounting Standards Board (FASB) have certainly exacerbated the situation for many small banks, even putting some at risk of failure. This is due to the downward impact of those valuations and the pro-cyclical nature of valuation and liquidity. This pro-cyclicality is present in both upward and downward moving markets, neither of which is helpful in establishing accurate and appropriate prices.

Accounting standards are not only measurements designed to ensure accurate reporting, but they also have an increasingly profound impact on the financial system – so profound that they must now be part of any systemic risk calculation. Today, as a practical matter, accounting standards are made with little accountability to anyone outside FASB. ABA believes that this is better left in the hands of an accounting oversight board, chaired by the chairman of a new systemic oversight regulator. This type of board could take into account the situation experienced by small banks and recommend a course of action that would not have such dire consequences.

FDIC premium increases should balance the need to rebuild the reserve ratio of the fund with the need to fund local community lending.

Certainly, the banking industry is committed to supporting the deposit insurance fund, and we stand ready to ensure the health of the fund and the strength of the FDIC. We understand how important deposit insurance is for their customers – the fund was built up ***entirely by bank premiums*** over time, and the industry knows that keeping it strong is essential to our nation's banking system. While we understand the need to rebuild the fund, the proposed increase in FDIC premiums will inflict high payment requirements on small, healthy banks that have had nothing to do with the problem. Since the banking industry is obligated to rebuild the fund, the issue is how quickly it should be accomplished. Timing can make a big difference when the economy is in turmoil and our communities can least afford a credit crunch. We want to be sure the FDIC monitors the pace of rebuilding in order to strike the right balance between keeping the fund strong and not taking money out of the system unnecessarily.

Given Congress' recent enactment of the Emergency Economic Stabilization Act and FDIC's long and successful history of nursing troubled institutions back to health, we are optimistic that FDIC's cost projections over the next five years may be too high. Should its projections prove to be too conservative, we hope the FDIC would immediately move to adjust premiums downward so as not to further restrict bank resources that could be used to meet the credit needs of our customers and communities. In addition, we believe that the goal of reaching a reserve ratio of 1.25 in five years – what the FDIC proposed – is aggressive. Congress specifically allowed for a goal of 1.15 in five years in order to avoid taking capital away from banks during difficult times. Moreover, Congress provided for an even longer period under extraordinary circumstances. ABA believes the FDIC should make full use of its authority to minimize the impact on bank lending, particularly to small businesses in our communities.

Banks should be allowed to hold increased quantities of municipal bonds.

In this time of economic difficulty, small and large communities alike are having difficulties placing their municipal bonds. A bill was introduced this year, H.R. 6333, that would help to alleviate this difficulty, increasing capital available to local communities. Clearly, this additional funding source would be welcomed by the residents and leaders of many communities. It works by changing the definition of "small issuer" in the tax code from one that issues no more than $10 million in tax-exempt bonds annually to one that issues no more than $30 million. It also allows the issuer to elect to apply the $30 million limitation at the "qualified borrower" level, rather than at the issuer level. Additionally, H.R. 6333 will provide a safe harbor for financial firms to hold up to 2 percent of their total assets in tax-exempt municipal bonds without being subject to the interest expense disallowance rules of the IRS Code. ABA supports H.R. 6333.

Subchapter S status should be expanded.

One way to encourage new capital in the banking system to support business lending is to allow banks to have alternative business structures. One of these is Subchapter S, which allows pass-through income tax treatment and limited corporate liability. Congress made Subchapter S available to insured depository institutions for the first time in 1996. However, at that time many existing banking institutions were unable to make the election because a corporation was not eligible if it had more than 75 shareholders. Legislative changes in 2004, 2005, and 2007 made significant improvements to Subchapter S, enhancing the viability of the structure for banking institutions. ABA supports further improvements that will: (1) increase the number of eligible shareholders to at least 150; (2) clarify that a current law reduction in the amount of deductions a regular corporation can claim with respect to tax-exempt obligations will not apply to a bank after it has been a Subchapter S corporation for three years; and (3) permit IRAs to make new investments in Subchapter S Corporations. ABA supports H.R. 4840, which would modernize the Subchapter S structure.

Short selling rules should be modified.

In the last year, there has been a marked increase in short interest in bank stocks and, in July, that interest took a decidedly sharp turn upwards. Banks of all sizes saw precipitous drops in stock prices, extremely high trading volumes, and huge spikes in failures to deliver (FTDs). It is generally recognized that FTDs are indicative of naked short selling, as they represent, in effect, an excess of promises to deliver stock compared with the supply of actual stock when delivery is due, a condition likely caused in large measure by naked short sales. The SEC's recent efforts to ban naked short selling are very much appreciated. However, more can and should be done with respect to short selling generally. Reinstating the uptick rule could help small banks. In addition, it would be very helpful to reinstate the temporary halt on short selling of all bank stocks – not just those listed on an exchange – until the markets become more rational and calm. This would allow small bank stocks who are not traded on exchanges to participate in this ban, and would help to avoid a drastic drop in stock price that comes with short selling. Finally it may make sense for the SEC to consider whether there is some manner in which short sale information could be made available to the public on a delayed basis. As one banker told me, "I know who is long in my stock, why can't I know who is short in it as well?"

Shareholder thresholds for SEC registration should be increased.

The SEC requires a company with $10 million in assets and 500 shareholders to register its securities with the SEC. This inhibits the capital-raising of small banks, who have to turn away investors in their community for fear that they will trip over the threshold number and increase their regulatory compliance costs overnight. Once labeled as a public company and required to register with the SEC, a company is subject to significant reporting obligations which impose disproportionately high financial and opportunity costs on smaller public companies – costs that are ultimately borne by the company's shareholders and the nation as a whole as the job and economic creativity of small businesses are unnecessarily burdened. While the $10 million dollar asset size measure has twice been increased since Congress enacted Section 12(g) in 1964, the shareholder measure of a public company, has never been updated. Due to the way assets are measured in the bank, ninety-nine percent of banks meet the $10 million asset test and, thus, the only criterion of importance to the banking industry is the shareholder measure of a public company. While the SEC in response to inquiries from this Committee has indicated that they are considering the matter, this issue should be addressed ***during this credit crisis*** – not after it is over. It is high time that the 500-shareholder threshold is increased to be a more accurate indicator of a public company.

Securitization rules should be studied before they are modified.

"Securitization" now carries with it a very negative connotation, given the problems with subprime mortgage backed securities. Nevertheless, securitization is a very important part of funding bank loans, whether it is for mortgages, autos, credit cards, or small business loans. It is an important funding mechanism for our financial systems, bringing outside investment and liquidity to banks of all sizes. The Financial Accounting Standards Board (FASB) is currently working to finalize changes in securitization accounting rules in early 2009. Depending on the outcome, this effort could result in creating more problems than it is attempting to solve, discouraging securitizations. If that market dries up further, banks may find that they do not have the necessary funding to continue to provide affordable credit to consumers. ABA recommends a thorough and complete discussion of any potential changes in securitization accounting rules to ensure that we avoid any unintended consequences to small banks and their small business customers.

Efforts to increase the covered bond market should be encouraged.

Last summer, the FDIC took significant action to promote a market for covered bonds in the United States, a goal shared with the U.S. Treasury Department. A covered bond market could provide a significant long-term funding source (complementing other funding sources, such as short-term Federal Home Loan Bank advances) to help U.S. banks fund consumer mortgages. The FDIC's guidelines for residential covered bonds makes clear that, under certain conditions, the FDIC will grant investors access to the collateral supporting the covered bonds within 10 business days after the bank fails. While the Treasury's release of recommended best practices for a covered bond market is a first and important step in the development of the covered bond market in the U.S., the action taken generally benefits the larger lending institutions. ABA recommends that the Congress and the FDIC take further steps to explore methods for allowing community bank participation in this market.

IV. Conclusion

In conclusion, we are indeed facing a difficult economic cycle, one like we have not seen in many years. However, banks, as always, will provide a helping hand in our communities, utilizing all of the tools we have available to us. The above ideas will help expand our ability to meet the needs of small businesses in our community. As Congress considers these and other changes, we urge caution. Care must be taken not to enact policies or regulations that will create unintended consequences, especially ones that may restrict the availability of credit that is so vital to our economic recovery. The thousands of banks across our great country that never made one toxic subprime loan are scared to death that their already crushing regulatory burden will be increased dramatically by regulations aimed at their less regulated or unregulated competitors. We ask that you continue your efforts to ensure this does not happen. We stand ready to work with the Committee, Madam Chairwoman, to find effective ways to assure lending flows to small businesses.

U.S. Women's Chamber of Commerce

Testimony
of
Margot Dorfman, CEO
U.S. Women's Chamber of Commerce

Before the House Small Business Committee

Hearing on Creating Opportunities for Small Businesses in an Economic Recovery
October 28, 2008

I have five words for you: Big, Bold, Simple, Focused, and NOW

Chairman Velázquez, Ranking Member Chabot, and Members of the House Committee on Small Business, my name is Margot Dorfman and I am the CEO of the U.S. Women's Chamber of Commerce (www.uswcc.org). Thank you for this opportunity to speak on behalf of the millions of small business owners, their employees and families nationwide who are scared, hurting, and watching during this economic crisis while Washington focuses on corporate executives and big Wall Street bailouts instead of getting down to Main Street America where jobs are created, families are fed and mortgages are paid to get credit flowing and raise consumer confidence.

I am hearing every day from small business owners who are very frustrated as they watch while Secretary Paulson and President Bush repeat the failures of the past by always looking out for the corporate executives at the top instead of realizing that the whole fabric of our financial system is in peril. Pouring billions of tax payer dollars in at the top of the system in no way assures that a small business owner in a local community is going to be able to get their line of credit increased during this abrupt economic slowdown.

Our members are angry that the federal government is giving tax payer money to big companies that have been horribly irresponsible while responsible small businesses are not getting the money they need to keep their doors open. As one of our members said about her business, "Please try to get us help ... I don't want to lose my company; we have 40 families that we provide for and it is a big responsibility that I take very seriously.."

On behalf of the millions and millions of American small business owners, I implore you to act now with a big billion dollar punch that will reach directly to the credit needs of small business owners. We need you to be bold and decisive. We need you to aggressively work to restore consumer confidence. And we need you to DO IT NOW.

I'd like to take a moment to give you some insight into what I am hearing from our members. We have been surveying our members to get a clear look at this issue. They tell us there are three key problems.

First - consumer and business confidence is falling rapidly and creating a sudden contraction in business revenues. Because people are scared, they are not spending -- even if they have money to spend -- which is only adding to the problem. Our leaders need to be in front of the public every day working to calm fears, communicating pathways to assistance, and showing Americans that you are not JUST hoping that the big institutions will take care of this capital problem. Small businesses are the lifeblood of the American economy -- and leaders of the small business community should be actively engaged with you every single day during this crisis.

Second - lenders aren't lending and lines of credit are shrinking without cause at the worst possible time. Our members that have reached out to us tell us in the last ninety days, fifty-three percent are tapping into their own savings, sixty-three percent have turned to credit cards, and twenty-four percent have turned to friends and families for loans. And, business owners are telling us they are downsizing their employees or independent contractor force in alarming numbers. Seventy-one percent of businesses who have reached out to us say they have downsized in the last ninety days. Sixty-nine percent have seen their revenues drop. Thirteen percent say, if economic conditions do not change, they may be closing their doors within ninety days. Only twenty percent have seen revenues increase – and these businesses also cannot secure the capital needed for their cash flow needs.

Third - the cost of credit (when available) is going up. Thirty-eight percent of businesses reaching out to us tell us that their credit card and loan rates have gone up in the last ninety days, twenty-two percent tell us their credit limits have been reduced, and seventeen percent have had their lines of credit halted.

Here are some of the comments I have received from our small business owners. Patricia from Florida says "American Express cut my line of credit by $10,000 for no reason leaving no available cash to weather the slow down." From California we hear, "I have two lines (of credit). With 60K with Wells Fargo; they just decided to decrease it by fifty-percent. $50K with Bank of America. I asked for $10K to meet immediate payroll and was turned down. I am a customer for 20+ years and run millions of dollars through their bank, have three business accounts, two personal accounts, and have a 750 credit score."

Beatriz in New Jersey told us, "My existing business line of credit was reduced from $2M to $1M." And from Michelle in Virginia, "With the recent financial declines it has been like dominos. One after another, credit lines and credit cards cancelled! Accounts that I have had and maintained just closed."

This committee and Congress should take legislative action to help restore the flow of credit and capital to small business owners as soon as possible. And, you should encourage the Small Business Administration to take immediate administrative action to loosen lending operating procedures. Additionally, as small business leaders within Congress, we hope you will speak up for us with your Congressional counterparts in other committees to make sure that main street America is supported through this tough time.

Specifically, with regard to SBA backed lending programs, I encourage you to:

- Increase loan guarantees and limits;
- Increase lending authority;
- Lower borrower, lender and oversight fees;
- Loosen up rules on credit worthiness;
- Loosen up equity injection rules and be aware that "home equity loans" often used to get the cash for equity injections may be very difficult to secure;
- Relax the rules for refinancing (For many small business owners, credit cards are replacing lines of credit that have dried up. The SBA needs to make it easier to refinance this credit card debt into better structures with better terms.);
- Relax life insurance and job creation requirements.
- Allow those with current SBA loans to restructure them to reduce payments

I encourage you to focus on getting the cooperation of the lending community by keeping the solutions simple to implement by using existing systems, lowering the lender and oversight fees and assuring the lending community that any new programs, rules or procedures will be in effect for at least two years. And, use this opportunity to re-engage regional banks who may have dropped out of the SBA system or who have reduced their activities over the last few years. We need to revitalize our lending infrastructure so that we are not so reliant on a few big banking institutions.

As you make legislative and administrative changes, don't forget the SBA is not the organization it used to be. Eight years of budget cuts and poor executive leadership have gutted the organization. Many long time, skilled employees and managers have left. While you may be tempted to begin direct lending, if you do, the massive scale of what is needed may totally overwhelm the capacity of the SBA infrastructure. Even now, we continue to hear that the SBA is not adequately supporting the businesses who are struggling Katrina disaster victims (and again who have been impacted by Gustov and Ike). I believe we would be much better offer incentivizing banks to get back into lending with a specific pool of money made available only for small business lending.

We have to hold banks accountability for providing loans – or stop giving banks tax payer provided bailouts.

And we should dramatically increase transparency by putting into place a public reporting system that provides regional reports every thirty days on SBA lenders so that small business owners can look-up lenders who ARE lending in their region including the number of loans, types of loans, industry of the recipient, and loan amounts.

I encourage Congress to take additional actions – beyond small business lending – to help business owners get through these hard times. Congress should expediently pass another stimulus package to put additional funds in the hands of consumers, lower small business taxes and penalties, delay tax payments, delay retirement account payments, and extend the amount of and period for loans against retirement accounts. And, most importantly you must take action to reduce health care costs. We are overwhelmed with the cries from our members as they are left with no good options to protect their families and their employee's families while watching their margins shrink and their cash flows dry up.

And finally, specifically speaking of women-owned small businesses, I encourage you to remember that our businesses are already at a disadvantage as the SBA regularly lends smaller amounts to our firms, and our firms tend to be smaller than the market whole. I encourage you to make sure that the lending programs reach to our marketplace so that we may leverage the resources necessary to keep our doors open and drive future growth. For instance, establishing a special 2-year look-alike of the Patriot Express lending program with loosened administrative rules, higher guarantees, and greater lending authority would quickly and directly assist many of our members to keep their doors open.

And, I encourage you to take action to implement the eight year old women's federal procurement program as Congress originally intended. We find with the recent 2007 goaling report that the federal government is still shutting out women-owned firms at an alarming rate. Many, many of our members have told us over the last ninety days that receiving fair access to federal contracts could certainly assist them with their business growth at this important time.

In closing, I have five words for you: Big, Bold, Simple, Focused, and NOW. We need you to champion our needs now before it is too late.

U.S. Women's Chamber of Commerce

House Small Business Committee Hearing 10.28.2008
Addendum
A Sampling of Small Business Comments
Received by the U.S. Women's Chamber of Commerce

"It really feels like really small business like ours is invisible to our government."

"Raw materials, shipping.. killing us!... as are higher minimum wages, workers comp costs, fearful of mandated 'benefits' that may be forced on my company!!!!! (HEALTH INSURANCE) City business taxes are unreal and almost punitive. Costs rising everywhere and my products pricing cannot be raised more."

"My LOC has been frozen until I payoff the balance of $19,000.
Then they will 'consider' releasing the LOC with a limit of $10,000. Understand, in the beginning when I used the LOC, I would pay it off within 6 months each time. However, over the last 12 months I have carried an increasing balance on the account, but have not hit my max limit. Nor have I been late on a payment and have always paid more than the payment due - makes no difference, my credit has been turned off."

"We need help now! If something doesn't give soon, I will most likely be out of business within the next 6 months."

"I am concerned about health insurance...there's no way I can afford it...it's a luxury item given the amount of money I pay to the feds and rising costs re: operation of biz...seems like the rich get richer and the rest live hand to mouth. I'm disgusted with the bailout and our hourglass economy...middle class getting the squeeze. the gov spending 10-12 billion a month in Iraq but I don't get a break ever. Gov could give every man woman and child in this country a million bucks today and it would be a drop in the bucket compared to the misuse of the tax money I'm forced to give crooks...I could go on but what the heck....the folks in power don't care about me as long as they've got great benefits...health care, retirement, perks, etc., and they work fewer days than me and talk talk talk about the same issues year after year.. what's changed? The rich get richer and the little guy gets the shaft!"

"Instead of a "stimulus check", Congress needs to get the banks and the credit card companies to be able to loosen up the lending. Also they need to start doing some EFFECTIVE PR telling the American Public that the sky is not falling. People are scared so they don't want to spend. Business is stymied because it is so hard to get money. Banks are scared so they are caught between a rock and a hard spot. Lend to pay the bills, don't lend so you don't lose. The WORLD needs to hear so good news. Not that taxes are going up. Handouts are going up and values are going down."

"Our business is ranked "Most Outstanding for quality of service and turn-around time" statewide. We have a strong customer/retail base and fleet accounts and maintain an extremely steady flow, yet our larger accounts are all on SLOW payment terms with us creating difficulty for us to make our payments on time. This has caused our interest rates on credit lines/ or cards to go through the roof and the credit companies will not work with us, therefore we are paying thousands a month in interest now putting us behind on our monthly obligations such as heat, rent and loan payments."

"The economic downturn is frightening. We are wondering how we will make it through the winter. We are laying off, cutting costs already cut, but nothing is enough."

"The more Congress can reassure the American public, and stop the panic, the better off small businesses will be. My company is suffering because everyone is frozen in fear: consumers aren't spending, big businesses are cutting back, and it's having a trickle-down, trickle-up ripple effect on small companies like mine."

"Our firm has seen a marked decrease in future request for services. Large, mid and small scale projects are being put on indefinite hold or canceled altogether as funding for them are more difficult to secure on the owner level. What was on track to be our first million dollar year - well that isn't going to happen. We are struggling to get paid on executed work from stressed steel fabricators who are seeming to hold on longer to their capitol. One fabricator arbitrarily had to change the terms of our invoices from 30 to 60 days or more - for a small business, the difference may be someone's job."

"Provide extended grace period for payments into small business retirement programs comments."

"I am closing my business with $70,000 loss in personal income causing $70,000 in debts that I need to repay. Help me with this burden by exempting my losses and lowering my next years taxes."

"I can not compete with competitors since they purchase goods for mfg whereas I do not. I am using every means to stay in business because over 80 families depend on my company. As a beverage manufacturer, it is critical that my capabilities stay current with or ahead of the competition. These changes in 2007 and 2008 were financed with my savings and other borrowed cash. When I applied for an SBA loan for new line, my current financials were not strong enough. This is the chicken and the egg without sound funds, I can not grow but without current customers and funds, I can not borrow money! In addition, my cost of utilities is 4X my competition and I have not been successful getting support from local government. I am a fighter but these last 2 years would have put a 'normal' person under! I need help now not 2 years and a mound of paperwork."

"I also feel that the government should have some type of protection for the small business owners to compel their contractors/clients to pay the amounts due. We should have some type of inexpensive fail proof system to collect funds that are due - most contractors and/or homeowners know that all they need to do is wait out the 4 month period for a lien and it will drop off because it will cost us too much money to pursue thru litigation. There should be a revolving credit line available to small businesses to enable us to keep the cash flow. All banks should have overnight clearance and check scanners in office (for a lot less than they are offering at the bank)for checks so we do not have to go to check cashing places to keep up with the pressure being put on us by vendors and insurance companies. ALL insurance companies should not be allowed to demand full payment of premiums or be cancelled they should be demanded to accept payments as long as there is money coming in on the policy it should remain in place - we have been in the middle of this all week - Liability and Workers Comp (with AIG) renew this week - I am scraping up scraps of money to renew my policy while they are having Luxury parties for costs more than my policy - how do you think I feel. My insurance has to be paid in full $10,000 by midnight tonight or they are canceling they will not accept 5,000 of the 10,000 - they want it all or nothing - meanwhile it does not end until March - THIS IS OUTRAGEOUS. We are beat down by these large companies demanding what they want and we have no one to stand up for us. PLEASE CHANGE THAT. My plumbing & heating company survived 911 by filing chapter 11 and successfully following the plan until the gas crisis in July - I have 15 trucks and it killed me. The gas has come down but now it is the insurance and the vendor crunch. Please try to get us Help in all of these areas I don't want to lose my company we have 40 families that we provide for and it is a big responsibility that I take very seriously. Anything that you do helps us all. I appreciate your time."

"It seems the world is holding its breath; business has slowed to a standstill even for exports? Everyone seems to have reduced purchases and obligations are still mounting. Our government should spend more here at home to help our businesses rather than using our taxes to help so many other countries. Give help to U.S. manufacturers now please...."

"The SBA as a source of help to small businesses like mine is a joke. I was forced to turn business away because they would not do a consolidation loan, so that I could free up money to hire more people. If you would like more info call me."

U.S. Women's Chamber of Commerce

"We balled out Wall Street, lending money to the imprudent and irresponsible all at the expense of the working class, WITH NO STRINGS ATTACHED. Imagine if I were to go to the bank for a loan showing the financial presented, on the brink of bankruptcy, what do you think my banker would say? He isn't going to say, "Penny so sorry you made such bad business decisions, here let me give you....1 million and you can go on a cruise, invest in your company, it okay!! NOT ON YOUR LIFE."

"Give us a direct Line of Credit (not through the banks) and let us grow. I have so many opportunities to grow but the government and taxes are KILLING my business. I am responsible and know how to cut expenses but the government just keeps taking and when I can't pay taxes on time because I have to use that money for cash flow, the just tag on penalties, and interest. Give me a line of credit and I will pay my taxes with it and get a decent interest rate with out Penalties which would not hurt my credit score."

"This is a terrible time for everyone, not just women, and the Fed is, as usual, really out of touch with small business owners. I do not feel that we are their priority. I have been owed government funds for work I have done and the money has been "held up" since June, 08 -- that's 4 months. I resent the fact that I am quick to be charged taxes, but when the Fed owes me money, I need to wait an inordinate amount of time."

"If the US Government is truly interested in helping small or woman owned businesses, they will give us more of their business. This would be the real solution and I don't feel it's going to happen."

"Taxes are killing me - Employee taxes, Health Insurance benefits too. Cash flow stinks, every client - even my best one's are sloooow paying."

"Margot, As always, I am available to assist to contact many small businesses that are being currently impacted, but also still devastated from Hurricanes 3 years ago and now Gustav and Ike. No hurricane assistance that devastated small businesses can benefit from.. has been given yet for Gustav and Ike. Not many can benefit from SBA." (Submitted by Cathy Denison, who testified for the hearing on Disaster Relief some years ago.)

"The bank which gave us the SBA backed loan gave us APR terms which kept going higher and higher, until recently. The interest on our note should have been fixed and low, and we thought that would be the case when we got it. However SBA claims that it is up to the bank to give whatever type of loan they wish and they couldn't do anything about it."

U.S. Women's Chamber of Commerce

"The use of CORN for fuel has directly affected my cost of goods sold! I am a SALSA manufacturer and do not use chemicals in our products. We use ascorbic acid-vitamin C (a CORN DERIVATIVE) as a natural preservative. The cost has gone from $4.50 a kilo to $33 a kilo!! Packaging (glass and plastic) has gone insane due to all the building going on in CHINA and I am having a hard time keeping my prices competitive."

"Bankers only look at your credit score. My business generates approx $35k per month in federal contracts but my credit score is low so I am turned down everywhere. My male competitors have gone into bankruptcy/lost major contracts/not paid federal tax liens but the banker loans them millions over and over."

"If the government could make non-qualifying micro loans of 25-50k or less to small businesses that would substantially help keep jobs in place and steady the small business sector...kind of like a Direct student loan of sorts."

"I am losing customers almost daily, and the customers I do have or becoming delinquent on their payments. Their delinquency is causing my financial hardships."

"With the recent employee tax rate increased I had to lay off two full-time and two-part-time employees. I now have to try to mange all the administration needs as well as the sales for re-orders. It's an overwhelming burden and if taxes are raised even more I will close my business. My house is in foreclosure and there is no relief in sight for us!"

"I have been forced to file bankruptcy to save my home and business, something I have never had to do. Business is so slow now that I will have a hard time meeting the financial requirements of the bankruptcy. I have to keep my business going, everything I have left is tied into it. There are no other jobs for me to apply for. The remainder of employees are starting to leave and try elsewhere. Please help! It all started when I missed and became late with my mortgage payments. At the time the lenders would not work with me. Now it has come to this. If I have to close my doors that will put 5 more people out of work."

"Sales is the solution to our economic downturn and need for capital. Small companies like mine can not compete with the lower prices offered by competitors. We need no less than one percent of the procurement budget ear marked to vendors who have no procurement contracts. These vendors can be grouped in categories depending on what products they offer. The vendors from each category are chosen in order from a rotating list for purchases at a set dollar amount. The government buyers must have the ability to buy using a debit card, which streamlines the payment process. A major source of capital drain is the so-called fees being charged by financial institutions. This additional interest for them provide enormous bonus to the executives. The effect on the consumer and small business owner is causing daily financial distress. We must have an end to the 'posting' and other games financial institutions now use to overdraw our accounts. They are draining off the small amounts of cash flow we have available in our checking and other accounts. It is a sin how we are robbed daily of our hard-earned funds by the financial institution's usury interest which they call fees."

"With the economy where it is small businesses are the key to recovery. I resent huge businesses and specifically banks get bailed out when a company like mine working hard, woman owned are told "you are a bad risk"! It is insulting when the bonus the salary that a failed single CEO will make even after this bailout is enough for me to grow my business and put 2 or even 3 people to work. This is not even looking at the huge bonuses. We are so messed up as a country. "This" CEO who again has FAILED, will buy a car or put money he made in to investment for himself... I would put it into my company...and actually grow something, more than my pocket book. I am disgusted. If you are small and have no voice, you get turned away, if you cant make your bills, you go under...if you are large and can lobby or take out a whole economy, you get a huge return...and NO ramifications just a 2nd chance. and then actually have a say in the terms of the bail out...my credit card company does not let me dictate the terms. why should the banks have anything to say about who I the tax payer bails them out?"

"Our biggest challenge is cash flow. We have relatively solid receivables, but they are extremely slow in coming in from our contracts. Also, I had to take a loan from my 401K and am required to pay it back. I am behind in payments due to cash flow constraints. However, I still have to pay income taxes on the payments made, even though I used it to fund my company operations. I shouldn't have to pay taxes on those payments back to my 401K. These fund were used to pay my employees and vendors."

"Congress needs to provide tax incentives to women owned small businesses that purchase new equipment, hire new employees or expand facilities. In addition, there needs to be a cap on interest rates for Credit Card companies and a revision and stricter regulation over credit agencies and reporting as there is often inaccurate and incorrect information in these reports that affect credit that is beyond the consumers control. They need to make it easier to correct these errors and more difficult for companies to make erroneous or quick reports without trying to remedy the situation and make sure information reported is correct. Credit companies should not be able to change the rules at any time and increase fees, interest and lower credit lines at will. Payday lenders have come under fire and many states limit their interest rates to a cap of 28% this should be an across the board ceiling for all creditors.
More low interest loans should be available to women business owners and a level playing field in bidding for projects and access to venture capital. Congress should provide tax credits to investors who invest in women owned businesses."

U.S. Women's Chamber of Commerce

"I HAVE APPLIED FOR A LOAN WITH THE LOUISIANA ACADIANA REGIONAL DEVELOPMENT SINCE JULY 2008 AND THEY STILL HAVE NOT RESPONED. I HAD DAMAGES TO EQUIPMENT DURING THE HURRICANES AND SBA WOULD NOT GIVE ME A LOAN BECAUSE THEY FEEL MY OBLIGATIONS ARE TO HIGH. I AM IN A POSITION WERE IF SOMETHING DOES NOT HAPPEN SOON I WILL NOT BE ABLE TO REOPEN MY BUSINESS FOR THE COMING TAX SEASON!!!!!!!!!"

ASSOCIATION OF EQUIPMENT MANUFACTURERS

SERVING MANUFACTURERS OF CONSTRUCTION, AGRICULTURAL, FORESTRY, MINING AND UTILITY EQUIPMENT, AND INDUSTRY-RELATED SERVICE PROVIDERS.

Statement of Richard A. Brown
President and COO of Krause Corporation

Before the

House Committee on Small Business' Hearing on "Creating Opportunities for Small Businesses in an Economic Recovery"

October 28, 2008
10:00 A.M.
2360 Rayburn

HEADQUARTERS: MILWAUKEE, WISCONSIN • OFFICES: WASHINGTON, DC • OTTAWA, CANADA
BEIJING, CHINA • EUROPEAN RESOURCE: BRUSSELS, BELGIUM
866.AEM.0442 • aem@aem.org • www.aem.org

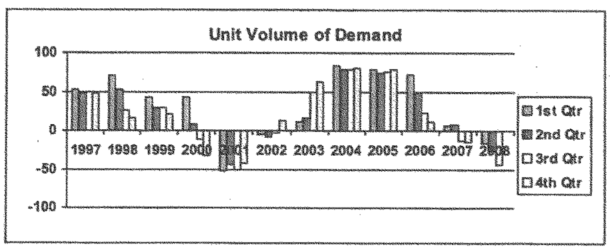
1000 Vermont Avenue, NW
Suite 450
Washington, DC 20005
tel: 202.898.9064
fax: 202.898.9068

Thank you, Chairwoman Velazquez and Ranking Member Chabot, for the opportunity to testify on this important topic.

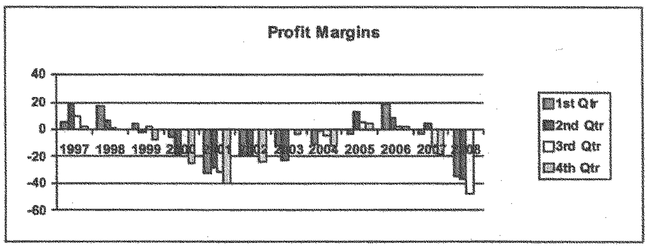
I am Richard Brown, President and Chief Operating Officer of Krause Corporation of Hutchinson, Kansas. Krause was founded in 1916 and is a privately held manufacturer and marketer of agricultural tillage products, which are sold primarily in North America, but also around the globe in Russia, Ukraine and Australia. We are a profitable company that employs approximately 225 people, supporting 500-700 dependents that rely on our ability to compete both in North America and around the world. Krause has survived the Great Depression, the Dust Bowl, two world wars, multiple other wars, material shortages and numerous financial interruptions. We intend to be here in the future.

I am also a member of the Board of Directors of the Association of Equipment Manufacturers (AEM). AEM is one of the oldest trade associations in America, representing over 800 companies that manufacturer agricultural, construction, forestry, mining and utility equipment. In addition, to serving on the AEM Board, I am Chairman of AEM's Small Enterprise Committee. The Small Enterprise Committee was established in 2007 to represent the interests of and provide specific services for AEM member companies reporting less than $250 million in annual revenue. With 769 companies falling into this category, SEC member companies comprise 95% of AEM membership and represent more than $12 billion in reported annual revenue. Of those 769 companies, 95 percent do business in the construction industry, 40 percent in the agriculture industry, 28 percent in utilities, 27 percent in the mining industry and 18 percent in the forestry industry (overlap in industries). SEC companies are based in 44 U.S. states.

While Wall Street is on a financial roller coaster, I am here to tell you that many small businesses in America are in an economic freefall. AEM members, like the rest of the country, are experiencing challenges due to the credit and liquidity crisis. AEM's Third Quarter Industry Conditions Survey of the construction equipment sector shows we have entered a period of contraction. In terms of unit volume of demand, 60 percent of AEM members reported demand is down from the same quarter last year and 56 percent reported it is down from the second quarter of this year. Furthermore, 31 percent reported their capital spending had decreased in the past three months while 56 percent reported a decline in their profit margins. Given these numbers, it is little wonder why a majority of AEM construction equipment manufacturers are planning for a recession business environment.



I have heard from several colleagues on how they are experiencing problems with obtaining lines of credit. One of them, a small manufacturer in rural South Carolina, had an operating line of credit with Wachovia that was secured by a stock portfolio, but with the unraveling of the market their line was frozen. Attempts to restructure their line with Wachovia stopped before they started and inquiries into other banks were met with a "we are only engaging in lending with existing bank customers" type responses. Now my colleague is spending most of his time trying to resolve the issue when he should be working to secure orders in this down market. Still other colleagues of mine have capital to operate but find their orders disappearing, in part because their consumers cannot get credit to make the purchase.



This crisis is also taking a toll on agriculture and rural America. The economic foundation for countless small businesses on thousands of Main Streets throughout the country is agriculture. Income gained from the production of commodities is the primary source of new monies for numerous rural communities, without which non-farm related businesses would lose their consumer base.

Modern agriculture requires farmers to have access to credit to obtain operating loans so they can make the large capital investments needed to plant and harvest crops. The tightening of the credit markets is coinciding with a rapid rise in the cost of agricultural inputs, such as fertilizer, seed, chemicals and fuel. The U.S. Department of Agriculture (USDA) estimates a 36 percent increase in crop-related expenses in 2008. USDA also estimates that since 2002, for the 14 major crops grown in the U.S., fertilizer expenses have increased 175 percent, seed expenses have increased 72 percent and pesticide expenses have increased 29 percent. It is important to note that the record commodity prices which earlier this year garnered intense media attention have fallen sharply in the past few months. For example, since June, corn prices have fallen around 49 percent, since July, soybeans have fallen 45 percent and since March, wheat has fallen 56 percent.

We are now seeing farmers delay the purchase of these inputs from their "normal" pre-season purchasing patterns as they are having trouble accessing credit and are hesitant to pay such steep prices. The ripple effects of tightening credit markets at a time of increasing capital requirements for agriculture will lead to economic hardships for rural America. I can also say that I personally perceive a sense of anger among rural Americans about this situation.

Generally speaking, they did not buy homes they could not afford or run up huge credit card debt, but now are forced to deal with the consequences of other people's excesses and as a consequence are losing faith in the system.

During these difficult times small businesses are the ones most at risk of failing, but there are steps the government can and should take to help ensure the continued success of America's entrepreneurs. These are my recommendations:

1) Extend the Bonus Depreciation and Enhanced Expensing Provision. This provision was an important part of the Stimulus Act of 2008 and its extension will continue to help multiple sectors of the economy including farmers, contractors, loggers and many more. Not only does this provision enable companies to purchase the tools they need to operate, but by buying new equipment with its modern technology, they become more competitive through efficiency gains.

   Congress should also consider reinstating the 10 percent Investment Tax Credit for new equipment purchases as a long-term way to encourage the use of modern, more efficient, production methods.

2) Invest in Infrastructure. This will increase equipment demand, create good jobs and improve our nation's competitiveness by making badly needed repairs and upgrades to our aging infrastructure. America is the world's largest importer and exporter and we depend on the efficient transportation of goods and services. However, our nation's investment in our transportation infrastructure in totally inadequate to maintain our current system, let alone prepare us to compete in the 21st century. Today, across all sources we invest only $85 billion annually in our transportation infrastructure. However, estimates show in order to properly maintain the current system and expand it to meet future needs we need to invest $225-$340 billion annually. While this is a significant sum, it pales in comparison to the cost of not making that investment.

   While making the proper investment in transportation, we cannot afford to ignore our country's water infrastructure, which in many areas is over 100 years old. Simply put, economic activity of any kind cannot occur if a population does not have an adequate source of clean water. The most recent surveys conducted by the Environmental Protection Agency on drinking water and wastewater needs estimates that from 2003-2023 we will need to invest a minimum of $276.8 billion on safe drinking water and $202.5 billion on wastewater infrastructure. Currently, there is a $23 billion annual funding shortfall. Investing in all types of infrastructure is one of the most productive short and long-term investments the government can make.

3) Help Small Businesses Export. Increased market access benefits small and medium-sized American businesses. Free Trade Agreements (FTAs) are needed to help level the playing field by eliminating tariffs on many products that play important roles in the U.S. economy. A quarter million U.S. companies export to foreign markets and the large majority of them are small and medium-sized businesses that employ 500 or fewer workers. According to the U.S. Chamber of Commerce, more than 230,000 small to

medium-sized businesses account for nearly 30 percent of U.S. merchandise exports. The number of such companies exporting has more than doubled since 1992. Of the small to medium-sized businesses that do export, nearly two-thirds of them sell into only one foreign market. Unlike big multinational companies that can afford to establish foreign affiliates to avoid trade barriers, exports are often the only way for small to medium-sized businesses to sell into the global market place.

It is important for Congress to pass the pending FTAs with Colombia, Panama and South Korea, especially when other countries with whom the U.S. is in direct competition, such as Canada, are beating the U.S. to securing bilateral trade deals with these nations. Canada has reached a free-trade agreement with Colombia that will improve market access for both nations' agricultural products, as well as industrial goods and services. Small to medium-size manufacturers will be locked out of important markets if we cannot secure deals that will lower barriers for our exports.

In addition, the government should focus financial considerations and government expertise and contacts to help small businesses export. We at Krause Corporation have the products and technology. But we need governmental assistance.

4) Help Control Rising Health Care Costs. Krause Corporation's annual health care costs represent $857 per machine unit we sell. Of critical importance is the fact that none of our global competitors have a direct comparable expense in their pricing. Health care costs for Krause are doubling every 4-5 years, and represent a greater risk to small businesses than $140 per barrel of oil. We must find a market-based solution that looks at increased competition, tort reform, increased administrative efficiencies, cost transparency, purchasing pools and the reduction of mandated coverage requirements as ways to control cost.

5) Continue the Government's Commitment to Renewable Fuels. Renewable fuels have become very important to the economic health of rural America. This industry is still in its infancy and therefore very susceptible to fluctuations in the capital markets. Since the credit crisis began, a number of planned renewable fuels plants have been put on hold or canceled, dealing an economic blow to the rural communities where they were to be located. In this environment, if the government were to take steps to modify the Renewable Fuels Standard, investors would flee the industry and given what a renewable fuel plants can mean to a rural area, that would be devastating. According to the Nebraska Public Power District, the average ethanol plant has the following economic impact on a rural community: $100 million in capital construction investment; a boost of more than $70 million to the local economy during construction; expansion of the local economic bases by another $70 million per year; approximately 35 new direct full-time jobs and another 80-90 additional jobs in the area; increased household income of $7 million annually; and millions of dollars in increased local, state and federal tax revenues. Maintaining our commitment to renewable fuels is not only good for national security, the environment and agriculture but also our nation's rural populations.

Whatever the course of action, I cannot stress enough that we must restore confidence in the market place. While times are tough, I am confident my company and industry will survive to see better days and with proper government action those days can be closer then they appear today.

Thank you again for the invitation to testify before you today. I will be happy to answer any questions you may have.

Respectfully,

Richard A. Brown
President and Chief Operating Officer
Krause Corporation

GRC GRAND RAPIDS CONTROLS CO., LLC
825 Northland Drive, N.E. • PO Box 360 • Rockford, MI 49341 • Phone (616) 866-9551 • Fax (616) 866-0490

October 24, 2008

House Small Business Committee

Subject: Testimony regarding small business in today's economy

Dear Committee Members,

Thank you for inviting me here today to discuss with you the impact the economy has had on our business. It is truly an honor for me to be here to tell you of our story. My name is Jim Bradbury and I am President/CEO of Grand Rapids Controls Company LLC headquartered 10 miles north of Grand Rapids, Michigan in the town of Rockford. As a small business leader, it is my responsibility to provide vision, and a plan, to achieve success in an ever changing world. In the following, testimony I hope to provide you insight into how we are trying to survive in these volatile times.

Like many small businesses GRC was founded on a need and an idea. For the last 40-years GRC has cultivated this idea into becoming a leading solution provider of motion controls. Next time you adjust your office chair, or your car seat, you are likely using our products. More than a manufacturer, GRC provides solutions to our customer's toughest requirements. Acting as a collaborative partner with our customers GRC has assisted in the development of industry firsts like the power sliding van door and automotive seat lumbar systems.

Industry started to change fifteen years ago when we first started to see overseas competitors come to our shores from far off places like India and China. These companies offered excellent prices but the quality of their parts was unacceptable. As time passed more and more competitors began to appear and quality steadily increased. With the spawning of the internet the world became a much smaller place as knowledge could be gained at a much quicker pace and the fear of the unknown became less scary. In addition, our customers could search for competitors around the world and send quotes to them electronically. From 1990 until 2000 we saw approximately twenty USA competitors reduce to two.

Also, during this period GRC saw tremendous growth, nearly 800%. A large reason for this growth was the consumer's desire for more function and comfort in a vehicle, as well as new safety regulations that required more robust designs. In the automotive market, power windows and seats, lumbars, door release, seat adjustment were just a few of the areas where new growth was created. In office furniture we found growth where there were strong desires from the consumer for more ergonomically comfortable seats with more adjustments.

Internal to GRC many things changed as we grew. We had numerous expansion projects to provide the space we required to produce the new parts. We also grew from 120 people up to as many as 450. Initially we used extra people to inspect in quality but over time we developed a lean mentality and learned to build our own equipment with quality detection built into the machines. We also began to build automation to offset the rising labor and benefits costs. By 2000, we were producing more with less and profitability was the best the company has seen in many years. We were also starting to see our competitors in Mexico and China increase their levels of quality to an acceptable level to compete with us, and they had significant price advantage.

Then in 2001 the economy started to decline as competition continued to increase. As a result there was even more pressure to reduce costs by our customers. We started to lay employees off as business dropped and customers moved business to our competitors. We saw many global on-line market tests as our customers learned to use the internet effectively. For the next three years this trend continued as sales dropped by 50%. Something needed to change in how GRC does business. Something did change, in the

GRC Grand Rapids Controls Co., LLC
825 Northland Drive, N.E. • PO Box 360 • Rockford, MI 49341 • Phone (616) 866-9551 • Fax (616) 866-0490

summer of 2004 GRC was sold to another family owned business, the Charlton Group. The Charlton Group was the manufacturer's representative for GRC to the automotive market. Additionally, The Charlton Group brought knowledge for doing business globally. At the time of the sale there were 219 employees at GRC. We were losing money and morale was low.

The new company needed to make changes immediately to regain business, and position us for the future. We needed to stop bleeding cash. Our customers were telling us that if we were not in a low cost country (LCC), we would not be sourced new business. Through exhaustive efforts we trimmed expenses, stepped up the sales effort, evaluated our products and received feedback from all of our customers as to where they were headed. It became apparent immediately that we needed a different model to compete. The economy was still slow and we saw more and more of bankruptcies and consolidation of the supply base as the industry re-aligned itself.

In reviewing our products we recognized that our core product was highly labor intensive, low tech, and for the most part, a commodity. We were also way behind our competitors in supporting our customer's growth in overseas. We decided to open a plant in China, to be part of China's future domestic growth. Plus, it provided us with a short-term competitive model to supply our commodity parts globally. We also started to investigate new markets outside of automotive and to diversify our customer base into transplant OEMs. The strategy worked and we were awarded 17 new programs to be launched in the next two years. We grew to over 300 employees in Michigan, our plants were full and the future looked bright.

We need to innovate! Being competitive again helped the immediate need but for the future we would need more than a commodity product. In the period between 2005 and 2007 we began to develop new value added products and processes and dedicated resources to this purpose. Our efforts resulted in new patented products, new processes and outstanding performance.

During the growth period of 2005 we had to borrow a large amount of money to re-invent the company. At the end of 2007 we paid down the debt by approximately $3 million. At the beginning of 2008 we were forecasting a year similar to 2007 and we were optimistic. How things change quickly.

In the beginning of 2008 sales in January started out slower than normal. In February, we were impacted by the American Axle strike which caused a 22% reduction in sales overnight. The information we were receiving from the parties involved was that they expected the downturn to be over very quickly. Not wanting to lose any employees, we put them on other continuous improvement activities. After a month we realized that we would have to make changes as our stakeholders were concerned. Rather than lay off people we decided to go to 32 hour work weeks for the employees. During this time, the parties involved in the strike were communicating to GRC telling us to get ready to work overtime as they will have to make up lost production.

At the end of the strike it was communicated that inventories actually increased during the strike as a result of high gas prices, in fact, they were going to cut production at their plants. This was at the beginning of June 2008. Our employees were not able to make ends meet working 32 hours, and we were worried that we were going to lose our best employees. We decided to lay-off employees and put the remaining people back on 40 hour work weeks.

Throughout 2008 we started to see rising material prices for resin and steel. We also started to get charged surcharges for delivery services. Fortunately for us, with the cost savings activities we had underway we were able to offset these increases avoiding further profit erosion. Our office furniture customers started to insist on LCC sourcing and started to move towards moving some business. Sales for all of our customers were falling due to the economy. Sales dropped over 40%.

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In response to the falling sales we cancelled wage increases for employees until further notice and no bonus will be given out. Resources are restricted to operationally critical items, sales growth and cost reduction activities only. We are committed to mitigating the bottom line impact of the revised lower sales forecast.

Despite the weakening economy GRC has continued to make improvements, below are a few performance metrics that demonstrate the results we are achieving.

- Delivery – 100%for last 12 months
- 5% productivity increase YTD
- Reduced scrap by 50%
- Reduced Cost of Poor Quality by 30%
- OSHA Recordables improved by 61%
- Absenteeism reduced by 50%

The main point for all of the testimony above is to demonstrate the complexity of the changing world on a small business with limited resources. The speed at which the market changed recently has caught GRC unprepared for such a volitle shift and drastic measures were required. We are continuing to work through these issues and are improving our position daily. However, despite these measures, the effect of the credit market may have longer reaching consequesnces to less prepared companies.

Financially, GRC uses a line of credit for daily operational activities. The limit on the line of credit is based on a formula that calculates a percentage of our qualified accounts receivable (AR) plus a percentage of our qualified inventory. As sales fall AR and inventory shrinks, effectively reducing our line of credit. I feel GRC has performed at a high level of fiscal responsibility to foster profitable growth in our company. We are becoming a great company in many facets of business as described above but we are getting squeezed by insecure creditors and loss of sales revenue.

In talking to the bank the feeling I get is that at the lower levels they do not have a clear direction on what they can, or cannot, do in regards to loan approvals. There is an uncertainty to the valuation of an asset, and in the short term, it is likely that a much more conservative approach to appraising assets is used. In addition, the estimation of sales revenue and the strength of the customers are also at issue. Lastly, I think the trust between banks is on par with a business owner. Until a clear direction is achieved in the economy confidence will be lacking in the financial arena.

I have traveled all over the world and I firmly believe America is the greatest country on earth. I also believe America has a competitive advantage in creative solutions to world problems. I would like to see an environment where the government challenges the American companies to create new industries. However, the USA is competing against other countries where their governments subsidize development in these new areas so that the resulting products are affordable to the world, rather than the American development source passing on the cost to the customer in their products. US companies need to be able to compete on a fair playing field, and if we are provided a level field, we will grow. I believe by the government participating in R&D we will create new industries that are capable of sustaining themselves versus other countries copying our technologies, without the development costs, and underbidding our great country in our home market.

I have seen many small manufacturers close their doors, or have to manufacture outside of our country, to compete within North America. This needs to stop! In order to develop products we need all the suppliers in the value stream close to the point of development. Without this support development slows and the end result is less than desired.

Lastly, in my opinion, any good strategic plan requires a clear direction, but if upper management does not support it, then it will stop. For example, in the early 1990s GM designed and built an electric car for the future and brought it to the public with a high price tag, from the development of technology, and no easy

GRC Grand Rapids Controls Co., LLC
825 Northland Drive, N.E. • PO Box 360 • Rockford, MI 49341 • Phone (616) 866-9551 • Fax (616) 866-0490

way to refuel the vehicle. There were little or no incentives to create a market for this desired technology and the strategy failed. What would it have looked like if gas prices were higher, or we raised CAFE to the higher level, back then? Government and business have to work collaboratively for all of us to be successful. Some of these are hard decisions that are not the most popular, but must be made. As a small business executive I just want a fair playing field, one where our government supports business like the Japanese R&D reimbursement strategy.

Thank you for taking the time to read my testimony and I hope it provides insight into the plight of a small business in today's economy. We are doing everything we can to support our employees and stakeholders in our effort to build a great company. Fortunately for us we had many activities in place to further reduce our operating costs and increase sales, but I have to believe there are a lot of other small businesses that are not so fortunate. The economy is fragile today and it appears recovery is many months away. If credit is not available to small business to get through these times I believe many will disappear and the country will be worse off.

Sincerely,

James A. Bradbury

Riemeier Lumber Company Story

The Riemeier Lumber Company was founded in 1925. The company started out selling hardwood lumber to the industrial market for furniture and wagon building. The end of Prohibition moved the company into the commercial market selling lumber for distilleries and warehouses for storage of whiskey. The end of World War II vaulted Riemeier into the residential market with the large need for housing. These three markets were the core of the business.

The growth of Riemeier caused us to purchase and move into a new facility in May of 2000. The new facility more than doubled the acreage, warehouse and office space to allow for future growth.

In November of 2005, a wall panel operation was started called Riemeier Structural Solutions. This was the process of constructing exterior and interior walls at the facility and delivering them to the jobsite, resulting in reduced costs and higher quality for the builder customers. The company was prospering, and by the end of 2005, Riemeier Lumber and Riemeier Structural Solutions had record sales of approximately $58,000,000.00 and roughly 150 employees.

Customer demand for one stop-shopping placed the company in the market for a roof truss operation. The purchase of Panel Barn Lumber/Truss Design was agreed upon in 2006, and bank financed in February 2007 adding roughly 30 jobs. We now had the business model that would carry us long into the future, being able to provide lumber, wall panels and roof trusses.

As the housing market began to struggle in 2006, our sales declined by 5% from our prior year record sales, and Riemeier Lumber experienced its first lay-off in history in November 2006. Sales for the first quarter of 2007 were poor, and in April, we made our second round of cuts. We managed to make minimal profit from April through August and added a second shift at truss in anticipation of a good September and October as those were typically strong months as builders rushed to get houses under roof prior to winter. Sales during this period were well below expectations, and we had our third round of cuts in October. We finished 2007 down, 24% in sales, causing a significant loss.

Our banking relationship that was so strong in 2005, 2006 and 2007 as we grew and expanded the business, deteriorated during the later half of 2007 as the housing market continued to decline and credit crisis accelerated. Our builder customers were affected by the downturn and the credit crisis. They were unable to pay us, which caused our credit to suffer as their unpaid receivables were not considered good collateral by the bank.

At the same time, our bank itself was suffering greatly in the credit crisis from its involvement with the subprime lending. As the credit crisis deepened at the end of 2007 and beginning of 2008 (and its effect on our bank became more evident and public), only 10 months after receiving additional financing from our bank for the truss acquisition, our bank declared Riemeier to be in default of its loan covenants.

Whereas, the bank had always previously insisted that it be the sole lender and banking institution for Riemeier, it now insisted that Riemeier find other sources of financing so that our bank's exposure would be reduced. Despite Riemeier's many, many attempts to comply with this request, it was not able to secure additional financing due to the condition of the industry and the continuing credit crisis.

The Company went through a bank supervised period of forbearance during which interest rates and bank fees were increased creating greater losses for our Company. As our bank's action became public, we began to see a more rapid decline in our sales. On August 11th, the bank began the wind-down process, including letters to send to our customers and vendors explaining that we were going out of business. There was also a list of employees and their termination date and a list of current jobs in process and whether they would be completed or not. This was accomplished by the bank mandated consultant that is under contract with Riemeier as required by the forbearance.

The current state of the company is as follows: The real estate is currently for sale, assets, including trucks, office furniture, mill equipment and tools have been sold at auction. All material that could not be sold beforehand was also auctioned. There are 5 employees left, including Ken, myself and 3 accounting people to do collections until the last day we will be at the facility, which is slated for November 6th. We will then close our door forever.

Thomas E. Franke, Sr.
Executive Vice President, Riemeier Lumber Company
October 2008
U. S. House of Representatives Committee on Small Business

CUNA
Credit Union National Association
cuna.org
DANIEL A. MICA
PRESIDENT & CEO

601 Pennsylvania Ave., NW | South Building, Suite 600 | Washington, DC 20004-2601 | PHONE: 202-638-5777 | FAX: 202-638-7734

October 28, 2008

The Honorable Nydia Velázquez
Chairwoman
Committee on Small Business
United States House of Representatives
Washington, DC 20515

The Honorable Steve Chabot
Ranking Member
Committee on Small Business
United States House of Representatives
Washington, DC 20515

Dear Chairwoman Velázquez and Ranking Member Chabot:

I am writing on behalf of the Credit Union National Association (CUNA) to thank you for calling today's hearing entitled, "Creating Opportunities for Small Business in Economic Recovery." CUNA is the nation's largest credit union advocacy organization, representing 90% of our nation's approximately 8,300 state and federal credit unions, which serve over 90 million members, and state credit union leagues.

The consequences of the economic crisis are beginning to affect Main Street. Small business owners are finding it increasingly difficult to secure the credit that they need to keep their businesses operational. Identifying mechanisms to ensure the continued availability of credit for America's small businesses is critically important.

For nearly a century, in both good times as well as bad, credit unions in the United States have been there for their members, including those who own small businesses. In the aftermath of the Great Depression, Congress created the federal credit union charter to make credit more available to American consumers and help stabilize the credit structure of the United States. Credit unions with business lending experience are in a position to assist small business owners. As a part of a comprehensive approach to make credit more available to small business owners, we encourage Congress to enact legislation eliminating the decade-old cap on credit union member business lending.

Today, credit unions have approximately $30 billion in outstanding business loans. We estimate that in an environment in which credit unions are no longer restricted by a statutory business lending cap and are encouraged by the regulator to lend money to their small business-owning members in a safe and sound manner, credit unions could easily lend an additional $10 billion in the first twelve months. This would provide much needed economic stimulus without costing the taxpayers a dime.

As the economy recovers from this crisis, credit unions will continue to be there for their members. We know credit unions cannot be the entire solution to the problems we face, but credit unions stand ready, willing and able to assist in the recovery. We encourage Congress to further credit unions' ability to assist small businesses by repealing the cap on credit union member business lending.

On behalf of the 90 million members of America's state and federally chartered credit unions, we appreciate your consideration and look forward to working with Congress and the Administration to ensure credit unions are able to do their part to facilitate economic recovery.

Sincerely,

Daniel A. Mica

Daniel A. Mica
President & CEO

AMERICA'S CREDIT UNIONS

PO Box 431 | Madison, WI 53701-0431 | 5710 Mineral Point Road | Madison, WI 53705-4454 | PHONE: 608-231-4000

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